

FIRST MOBILE GROUP HOLDINGS LIMITED
第一電訊集團有限公司



MASTERING THE MOBILE ARENA

THIRD QUARTERLY REPORT 2004
二零零四年第三季度業績報告

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

HIGHLIGHTS

For the nine months ended 30th September, 2004, First Mobile Group Holdings Limited and its subsidiaries recorded satisfactory results, despite a competitive operating environment. Highlights of the nine months' performance are as follows:

- Turnover was approximately HK\$4,574 million, representing a decrease of 5% over the same period of 2003
- Gross profit was approximately HK\$285 million, representing an increase of 18% over the same period of 2003
- Profit attributable to shareholders was approximately HK\$58 million, representing an increase of 66% over the same period of 2003
- Basic earnings per share was HK3.0 cents, representing an increase of approximately 66% over the same period of 2003
- Sales of mobile phones were approximately 2.8 million units

RESULTS

The directors (the "Directors") of First Mobile Group Holdings Limited (the "Company") are pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the three months and the nine months ended 30th September, 2004 (the "Periods"), together with the unaudited comparative figures in 2003:

Unaudited Consolidated Profit and Loss Account

For the three months and the nine months ended 30th September, 2004

	Note	Three months ended 30th September,		Nine months ended 30th September,	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	1,588,983	1,772,811	4,574,234	4,821,158
Cost of sales		(1,512,318)	(1,689,043)	(4,289,069)	(4,578,715)
Gross profit		76,665	83,768	285,165	242,443
Other revenues	2	2,741	1,450	5,828	4,521
Selling and distribution expenses		(20,750)	(20,708)	(69,055)	(46,913)
General and administrative expenses		(34,695)	(33,500)	(109,654)	(112,641)
Other operating income/ (expenses), net	3	1,452	1,998	(1,798)	(1,803)
Operating profit		25,413	33,008	110,486	85,607
Finance costs		(7,641)	(9,093)	(22,327)	(25,803)
Share of loss of a jointly controlled entity		-	-	-	(166)
Profit before taxation		17,772	23,915	88,159	59,638
Taxation	4	(9,198)	(8,232)	(33,933)	(22,072)
Profit after taxation		8,574	15,683	54,226	37,566
Minority interests		573	182	4,117	(2,512)
Profit attributable to shareholders		9,147	15,865	58,343	35,054
Basic earnings per share	6	HK0.47 cent	HK0.82 cent	HK3.00 cents	HK1.80 cents

Notes:

1. Basis of preparation and accounting policies

The unaudited consolidated profit and loss account has been prepared in accordance with the principal accounting policies of the Group which conform with accounting principles generally accepted in Hong Kong.

The accounting policies and methods of computation used in the preparation of the unaudited consolidated profit and loss account are consistent with those used in the annual report for the year ended 31st December, 2003 and the unaudited interim report for the six months ended 30th June, 2004.

2. Turnover and revenues

The Group is principally engaged in the trading and distribution of mobile phones and accessories and the provision of the inter-city/international telecommunication services using Voice-over-IP ("VoIP") technology.

Turnover represents invoiced value of sale of mobile phones and accessories, and airtime using VoIP technology to customers, net of returns, discounts allowed, value-added tax or sales tax where applicable. Revenues recognised during the Periods are as follows:

	Three months ended 30th September,		Nine months ended 30th September,	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover				
Revenue from sale of mobile phones and accessories, net	1,562,644	1,744,404	4,499,761	4,731,144
Revenue from provision of inter-city/international telecommunication services using VoIP technology, net	26,339	28,407	74,473	90,014
	1,588,983	1,772,811	4,574,234	4,821,158
Other revenues				
Interest income	1,469	1,115	3,212	3,620
Rental income	229	226	688	679
Repair service income, net	1,043	109	1,928	222
	2,741	1,450	5,828	4,521
Total revenues	1,591,724	1,774,261	4,580,062	4,825,679

3. Other operating income/(expenses), net

Other operating income/(expenses), net for the nine months ended 30th September, 2004 and 30th September, 2003 respectively mainly comprised amortisation of intangible assets and exchange differences.

4. Taxation

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Three months ended 30th September,		Nine months ended 30th September,	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax (note (i))	2,245	2,801	10,637	7,779
Overseas taxation (note (ii))	7,038	5,052	24,842	14,697
Deferred taxation	(85)	379	(1,546)	(404)
	<u>9,198</u>	<u>8,232</u>	<u>33,933</u>	<u>22,072</u>

Notes:

- (i) Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the Periods.
- (ii) Taxation on overseas profits has been calculated on the estimated assessable profits for the Periods at the rates of taxation prevailing in the countries in which the Group operates.

5. Dividend

The Directors of the Company do not recommend the payment of an interim dividend for the nine months ended 30th September, 2004 (2003: Nil).

6. Earnings per share

Basic earnings per share for the three months and the nine months ended 30th September, 2004 are calculated based on the profit attributable to shareholders of HK\$9,147,000 and HK\$58,343,000 respectively (2003: HK\$15,865,000 and HK\$35,054,000 respectively) and on the weighted average number of 1,945,696,565 shares in issue during the Periods (2003: 1,945,696,565 shares and 1,945,696,565 shares respectively).

Diluted earnings per share for the three months and the nine months ended 30th September, 2004 and 2003 are not presented as there were no dilutive potential shares as at 30th September, 2004 and 2003.

7. Movements in reserves

Movements in the reserves of the Group during the three months ended 30th September, 2004 and 2003 are set out below:

	Share premium HK\$'000	Properties revaluation reserve HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Reserve fund (note (i)) HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July, 2003	127,258	3,067	3,994	162	4,872	485	379,397	519,235
Exchange differences	-	-	-	-	-	(473)	-	(473)
Profit for the period	-	-	-	-	-	-	15,865	15,865
At 30th September, 2003	<u>127,258</u>	<u>3,067</u>	<u>3,994</u>	<u>162</u>	<u>4,872</u>	<u>12</u>	<u>395,262</u>	<u>534,627</u>
At 1st July, 2004	127,258	3,120	3,994	162	4,872	(636)	464,848	603,618
Exchange differences	-	-	-	-	-	(143)	-	(143)
Profit for the period	-	-	-	-	-	-	9,147	9,147
At 30th September, 2004	<u>127,258</u>	<u>3,120</u>	<u>3,994</u>	<u>162</u>	<u>4,872</u>	<u>(779)</u>	<u>473,995</u>	<u>612,622</u>

Note:

- (i) In accordance with the relevant regulations in the People's Republic of China (the "PRC") applicable to wholly foreign owned enterprises, the PRC subsidiary of the Group is required to appropriate to the reserve fund an amount of not less than 10% of the amount of profit after taxation (based on figures reported in the statutory accounts). If the accumulated total of the reserve fund reaches 50% of the registered capital of the PRC subsidiary, the enterprise will not be required to make any further appropriation. The reserve fund may be used to reduce any losses incurred by the PRC subsidiary. The appropriation is made only at 31st December.

ADVANCE TO AN ENTITY

According to rules 17.15, 17.17 and 17.22 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to an entity from the Group exceeds 8% of the Company's total market capitalisation. As at 30th September, 2004, trade receivable from a customer of the Group (the "Trade Receivable"), 上海頂一電訊設備有限公司 (the "Customer"), a company which is independent of, and not connected with, the Company, the Directors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules), amounted to approximately HK\$36,000,000, representing approximately 8.3% of the Company's total market capitalisation as at 30th September, 2004. The Trade Receivable was resulted from sales to the Customer by the Group in its ordinary course of business and on normal commercial terms. It is unsecured and interest free, and has normal terms of settlement.

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the trading and distribution of mobile phones and related accessories from a wide variety of brands in the Asia Pacific region. Under the competitive environment, the Group's results in the third quarter of 2004 were satisfactory.

Mobile Phone Distribution

During the period under review, our Malaysian subsidiary acquired distribution rights of 5 new models, namely Samsung SGH-D410C, SGH-E600C and SGH-E800C, and Motorola E398 and C380. Samsung is the second largest brand with a market share of approximately 27% in the country. To better serve our customers, 2 new service centres were established in Malaysia in the third quarter of 2004, namely Star Parade at Alor Setar in Kedah and Bukit Jambul at Penang (branch office cum service centre). Also, 3 retail shops were opened under the name of Let's Do Mobile. They are located at Terminal One in Seremban as well as The Mail and Bangsar Village in Kuala Lumpur.

In the Philippines, Samsung, which our Philippine subsidiary distributes, continued to be the second most popular brand with a market share of over 10% during the period under review. To create a wider coverage of Samsung products in the retail arena, the Group planned early this year to establish 60 concept shops under the banner "Samsung Privilege Partners Shop" ("SPP") in the Philippines, in co-operation with local dealers, to sell Samsung mobile products. It has so far established 39 SPPs.

During the period under review, the Group set up offices in Taipei and Kaohsiung. Subsequently, Taichung office was also set up in early October. Sales activities were started since August 2004.

In Indonesia, we set up an office in Cempaka Mas in August 2004. As the mobile phone penetration rate in the country is still low at approximately 15%, there is much room for growth. We will explore the potential of this market.

During the period under review, our subsidiary in Mainland China acquired the sole distribution right of Daxian D7030.

Financial Review

Turnover for the nine months ended 30th September, 2004 amounted to approximately HK\$4,574 million, representing a slight decrease of 5% over the corresponding period in 2003. Gross profit margin increased by 24% from 5% for the nine months ended 30th September, 2003 to 6.2% in the period under review. The increase was mainly the result of the Group's strategy in shifting the product portfolio to more mid/high-end models. Sales volume for the nine months ended 30th September, 2004 reached 2.8 million units.

Selling and distribution expenses increased by 47% to approximately HK\$69 million for the nine months ended 30th September, 2004. In response to the economic recovery in the region, marketing activities carried out for the new models launched in 2004 were increased, leading to an increase in selling and distribution expenses. In addition, the increase was also contributed by the newly incorporated subsidiary in Taiwan which has started marketing activities in the third quarter of 2004.

Owing to the full repayment of HK\$80 million term loan in the first quarter of 2004, finance costs slightly decreased from approximately HK\$26 million for the nine months ended 30th September, 2003 to approximately HK\$22 million for the same period in 2004.

FUTURE PLANS AND PROSPECTS

Mobile Phone Distribution

In Malaysia, multimedia-enabled handsets and models supporting MP3 are forecasted to be popular in the market in the coming future. Therefore, the Group will explore and strive to acquire more distribution rights of these segments of mobile phones so as to leverage on the expected market demand.

In the Philippines, we are anticipating the launch of a slide phone, Samsung SGH-E800, followed by Samsung SGH-P710, the first EDGE (Enhanced Data rates for Global Evolution) phone of Samsung in the region, by bundling with high-end premium items during the fourth quarter of 2004. To build up greater co-operative rapport with our dealers, we plan to have a dealers meeting during Christmas.

SHARE OPTION SCHEMES

Pursuant to the written resolutions of the shareholders of the Company dated 15th December, 2000, two share option schemes, namely pre-listing share option plan (the "Pre-Listing Share Option Plan") and share option scheme (the "2000 Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes had been set out in Appendix V of the Company's prospectus in connection with placing of the Company's shares dated 20th December, 2000.

At the annual general meeting held on 29th April, 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") and the termination of the operation of the 2000 Share Option Scheme. No options had been granted under the 2000 Share Option Scheme since its adoption on 15th December, 2000 and up to the date of its termination. The summary of the terms of the 2003 Share Option Scheme was disclosed in the circular to shareholders dated 27th March, 2003.

(i) 2003 Share Option Scheme

Under the 2003 Share Option Scheme, the board of Directors (the "Board") or a duly authorised committee thereof which shall include the independent non-executive Directors (the "Committee") may, at its discretion, invite any participant (as defined in the 2003 Share Option Scheme), including any employee and any director of any company in the Group, to take up options at HK\$1.00 per option to subscribe for shares in the Company (the "Shares") at the higher of (i) the closing price of the Shares as stated in the Exchange's daily quotation sheet on the date of offer, which must be a business day; (ii) the average closing price of the Shares as stated in the Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share. The total number of Shares which may be issued upon exercise of all options under the 2003 Share Option Scheme and the Pre-Listing Share Option Plan must not exceed 10% of the total number of Share in issue as at the date of approval of the 2003 Share Option Scheme and as refreshed by members in general meeting in accordance with the terms of the 2003 Share Option Scheme.

Options granted under this scheme may be exercised within a period to be notified by the Board or the Committee to each grantee as being the period during which an option may be exercised, and in any event, such period shall not be longer than 10 years from the date of grant of the option.

The maximum number of Shares in respect of which options may be granted under the 2003 Share Option Scheme and any other share option schemes of the Company (including the Pre-Listing Share Option Plan) shall not exceed 30% of the total number of Shares in issue from time to time.

As at 30th September, 2004, no options under this scheme had been granted.

(ii) Pre-Listing Share Option Plan

The purpose of the Pre-Listing Share Option Plan is to recognise the contribution of certain Directors and employees to the growth of the Group and/or to the listing of the Shares on GEM of the Exchange on 29th December, 2000 (the "Listing Date"). On 15th December, 2000, options to subscribe for an aggregate of 174,965,000 Shares at an exercise price of HK\$0.82 per share were granted by the Company to the Directors of the Company and certain employees of the Group. Pursuant to the Pre-Listing Share Option Plan, the 3 executive Directors of the Company were granted options to subscribe for an aggregate of 132,125,000 Shares, 11 senior management staff were granted options to subscribe for an aggregate of 37,502,500 Shares and 56 employees were granted options to subscribe for an aggregate of 5,337,500 Shares.

Each of the grantee to whom options have been granted under the Pre-Listing Share Option Plan will be entitled to exercise (i) 10% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 6 months from the Listing Date, (ii) 20% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 12 months from the Listing Date, (iii) 25% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 18 months from the Listing Date, (iv) 25% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 24 months from the Listing Date, and (v) the remaining 20% of the options granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 30 months from the Listing Date and, in each case, not later than three years from the date of exercise of the options.

Options to subscribe for 17,602,375 Shares in the Company lapsed during the nine months ended 30th September, 2004, of which 14,277,375 Shares lapsed due to the expiry of the option period in accordance with the terms of the Pre-Listing Share Option Plan and the remaining 3,325,000 Shares lapsed due to the resignation of employees.

As at 30th September, 2004, there are options remaining to subscribe for an aggregate of 126,921,375 Shares, representing 6.5% of the issued share capital of the Company. This comprised options to subscribe for an aggregate of 118,912,500 Shares granted to the 3 executive Directors of the Company, options to subscribe for an aggregate of 4,725,000 Shares granted to 4 senior management staff and options to subscribe for an aggregate of 3,283,875 Shares granted to 40 employees.

No options had been exercised or cancelled during the Periods.

Following the adoption of the 2003 Share Option Scheme and the termination of the 2000 Share Option Scheme on 29th April, 2003, the above-mentioned outstanding options granted under the Pre-Listing Share Option Plan shall continue to be subject to the provisions of the Pre-Listing Share Option Plan and will not in any event be affected by the adoption and termination of the schemes.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30th September, 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(a) Shares in the Company

Name of Director	Number of shares of HK\$0.10 each			Total	Percentage of issued share capital
	Personal interests	Family interests <i>(note (i))</i>	Corporate interests <i>(note (ii))</i>		
Mr. Ng Kok Hong	596,766,389	9,088,625	-	605,855,014	31.14%
Mr. Ng Kok Tai	-	-	596,766,389	596,766,389	30.67%
Mr. Ng Kok Yang	146,944,889	-	-	146,944,889	7.55%
Mr. Wu Wai Chung Michael	2,003,500	-	-	2,003,500	0.10%
Mr. Sze Tsai To Robert	787,500	-	-	787,500	0.04%

Notes:

- (i) These shares are held by Ms. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong, and therefore Mr. Ng Kok Hong is deemed by virtue of the SFO to be interested in these shares.
- (ii) These shares are held by NKT Holdings Sdn. Bhd., a company incorporated in Malaysia, which is owned as to 50% by Mr. Ng Kok Tai and as to 50% by Ms. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Mr. Ng Kok Tai is deemed by virtue of the SFO to be interested in these shares.

(b) Shares in an associated corporation

Name of Director	Number of non-voting deferred shares of HK\$1.00 each in First Telecom International Limited		
	Personal interests	Family interests <i>(note)</i>	Total
Mr. Ng Kok Hong	1,239,326	18,878	1,258,204
Mr. Ng Kok Tai	1,239,326	–	1,239,326
Mr. Ng Kok Yang	305,160	–	305,160

Note: These shares are held by Ms. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong, and therefore Mr. Ng Kok Hong is deemed by virtue of the SFO to be interested in these shares.

(c) Options to subscribe for shares in the Company

Name of Director	Number of underlying shares under the Pre-Listing Share Option Plan		
	Personal interests	Family interests <i>(note)</i>	Total
Mr. Ng Kok Hong	42,525,000	–	42,525,000
Mr. Ng Kok Tai	37,800,000	787,500	38,587,500
Mr. Ng Kok Yang	38,587,500	–	38,587,500

Note: The option to subscribe for shares in the Company was granted to Ms. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Mr. Ng Kok Tai is deemed by virtue of the SFO to be interested in this option.

These options were granted on 15th December, 2000 under the Pre-Listing Share Option Plan and are exercisable at HK\$0.82 per share. None of the above Pre-Listing share options had been exercised during the Periods.

Save as disclosed above, as at 30th September, 2004, none of the Directors, chief executive or their associates had any interests, short positions or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

Save as disclosed above, at no time during the Periods was the Company or any of its subsidiaries a party to any arrangement to enable the Directors (including their spouses or children under 18 years of age) or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30th September, 2004, according to the register required to be kept under Section 336 of the SFO, the following persons (other than the Directors of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company based on returns filed on respective dates of notification:

Name	Date of Notification	Date of Event	Number of shares of HK\$0.10 each	Percentage of issued share capital
SW Kingsway Capital Group Limited	10th April, 2003	1st April, 2003	140,932,250	7.24% <i>(note(ii))</i>
SW Kingsway Capital Holdings Limited	10th April, 2003	1st April, 2003	140,932,250	7.24% <i>(note(iii))</i>
World Developments Limited	10th April, 2003	1st April, 2003	140,932,250	7.24% <i>(note(iiii))</i>
Innovation Assets Limited	10th April, 2003	1st April, 2003	140,932,250	7.24% <i>(note(iv))</i>
Kingsway International Holdings Limited	10th April, 2003	1st April, 2003	149,988,250	7.71% <i>(note(v))</i>
Mr. Choi Koon Shum Jonathan	10th April, 2003	1st April, 2003	149,988,250	7.71% <i>(note(vi))</i>
Mr. Lam Ka Chung William	2nd July, 2004	29th June, 2004	136,312,250	7.01% <i>(note(vii) and (viii))</i>
Mrs. Lam Wong Yuk Sin Mary	2nd July, 2004	29th June, 2004	136,312,250	7.01% <i>(note(vii) and (ix))</i>

Notes:

- (i) Amongst 140,932,250 shares, 23,000,000 shares are held by SW Kingsway Capital Group Limited directly and 117,932,250 shares are held by three wholly-owned subsidiaries of SW Kingsway Capital Group Limited. The said three subsidiaries include Kingsway Lion Spur Technology Limited, Opal Dragon Investments Limited and Kingsway SW Finance Limited and they respectively hold 40,620,000, 69,312,250 and 8,000,000 shares in the Company. Therefore, SW Kingsway Capital Group Limited is deemed by virtue of the SFO to be also interested in the 117,932,250 shares.
- (ii) SW Kingsway Capital Holdings Limited holds 100% interests in shares of SW Kingsway Capital Group Limited. Therefore, SW Kingsway Capital Holdings Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.
- (iii) World Developments Limited holds 74% interests in shares of SW Kingsway Capital Holdings Limited. Therefore, World Developments Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.
- (iv) Innovation Assets Limited holds 100% interests in shares of World Developments Limited. Therefore, Innovation Assets Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.
- (v) Amongst 149,988,250 shares, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited as Kingsway International Holdings Limited holds 100% interests in shares of Innovation Assets Limited.

Kingsway Securities Holdings Limited, a wholly-owned subsidiary of Kingsway International Holdings Limited, directly holds 7,956,000 shares in the Company. Accordingly, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 7,956,000 shares held by Kingsway Securities Holdings Limited.

Weaver Strategic Investments Limited directly holds 1,100,000 shares in the Company. Weaver Strategic Investments Limited is a wholly-owned subsidiary of HK Weaver Group Limited and Kingsway International Holdings Limited holds 77% interests in shares of HK Weaver Group Limited. Accordingly, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 1,100,000 shares held by Weaver Strategic Investments Limited.

- (vi) Mr. Choi Koon Shum Jonathan ("Mr. Choi") beneficially owns or controls 36,929,651 shares, representing approximately 48% of the issued share capital of Kingsway International Holdings Limited and is deemed by virtue of the SFO to be also interested in the 149,988,250 shares in the Company held indirectly by Kingsway International Holdings Limited.

Of the above 36,929,651 shares of Kingsway International Holdings Limited, 10,101,596 shares are held by Mr. Choi as personal interest and 12,750,000 and 14,078,055 shares are held by Sun Wah Capital Limited and Scarlet Red Limited respectively as corporate interest. In other words, Mr. Choi personally holds 13% of Kingsway International Holdings Limited and has corporate interest of 17% and 18% of Kingsway International Holdings Limited through Sun Wah Capital Limited and Scarlet Red Limited respectively.

- (vii) Mr. Lam Ka Chung William (“Mr. Lam”) and his spouse, Mrs. Lam Wong Yuk Sin Mary (“Mrs. Lam”) beneficially own or control 31,932,317 shares, representing approximately 40% of the issued share capital of Kingsway International Holdings Limited and are deemed by virtue of the SFO to be also interested in the 136,312,250 shares in the Company held indirectly by Kingsway International Holdings Limited.

Of the above 31,932,317 shares of Kingsway International Holdings Limited, 9,226,750 shares are held directly by Mr. Lam, 10,515,060 shares are held by Dynasty International Holdings Limited, 9,790,507 shares are held directly by Mrs. Lams and 2,400,000 shares are held by Abundant World Limited.

Dynasty International Holdings Limited is a wholly-owned subsidiary of Global Fame Limited. Global Fame Limited is wholly-owned by The WKC Lam Family Trust which is a discretionary trust with Mr. Lam and his two children as the beneficiaries. On 29th June, 2004, Mrs. Lam was appointed as a trustee of The WKC Lam Family Trust. By virtue of the SFO, Mrs. Lam is deemed to be interested in the shares of Kingsway International Holdings Limited held by Dynasty International Holdings Limited.

Abundant World Limited is wholly-owned by The Mary Lam Family Trust which is a discretionary trust with Mrs. Lam and her two children as the beneficiaries. Mr. Lam is a trustee of The Mary Lam Family Trust. By virtue of the SFO, Mr. Lam is deemed to be interested in the shares of Kingsway International Holdings Limited held by Abundant World Limited.

- (viii) By virtue of the SFO, Mr. Lam is deemed to be interested in the shares of Kingsway International Holdings Limited which are held, owned, controlled or deemed to be interested in by Mrs. Lam.
- (ix) By virtue of the SFO, Mrs. Lam is deemed to be interested in the shares of Kingsway International Holdings Limited which are held, owned, controlled or deemed to be interested in by Mr. Lam.

Save as disclosed above, as at 30th September, 2004, there was no other person (other than the Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business (as defined in rule 11.04 of the GEM Listing Rules) which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Periods, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules during the Periods.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company adopted a code of conduct (the "Code") regarding securities transactions by Directors of the Company on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules on 14th May, 2004. Having made specific enquiry of all Directors, the Directors have complied with the Code and the required standard of dealings since its date of adoption and up to the period ended 30th September, 2004.

AUDIT COMMITTEE

The Company established an audit committee on 15th December, 2000 with terms of reference in compliance with rules 5.28 to 5.30 of the GEM Listing Rules. As at 30th September, 2004, the audit committee comprises three independent non-executive Directors, Mr. Sze Tsai To Robert, Mr. Wu Wai Chung Michael and Mr. Wong Tin Sang Patrick.

The principal duties of the audit committee include the review and supervision of the financial reporting process and internal control procedures of the Group. During the Periods and up to the date of this report, four audit committee meetings were held for reviewing the Company's annual report, half-year report and quarterly reports, and providing advice and recommendations to the board of Directors.

By order of the Board
Ng Kok Hong
Executive Chairman

Hong Kong, 12th November, 2004

Executive Directors:

Ng Kok Hong (*Executive Chairman*)

Ng Kok Tai (*Executive Deputy Chairman*)

Ng Kok Yang

Independent Non-executive Directors:

Sze Tsai To Robert

Wu Wai Chung Michael

Wong Tin Sang Patrick