

➤ MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The turnover for the period was HK\$124,812,000, representing an increase of 28.9% as compared to HK\$96,856,000 of the corresponding period in last year.

An unaudited consolidated net profit from ordinary activities attributable to shareholders of HK\$25,513,000 was recorded for the six months ended 30 June 2003, representing a decrease of 52.6% as compared to HK\$53,858,000 of the same period in 2002.

For the corresponding period in last year, the profit attributable to shareholders came mainly from the Group's once-off disposal of both its shares in TCL International Holdings Limited ("TCL") and Shenzhen Huafa Electronics Co. Ltd., which in aggregate contributed to an amount of HK\$38,153,000. In addition, the Group also recorded in last year an unrealized holding gain of HK\$20,010,000, whereas this year an unrealized holding loss of HK\$8,700,000 was recorded from the Group's remaining shares in TCL. As a result, the Group's profit contribution from investment activities for the period appeared a significant drop as compared to that of last year. However, a written back of other payable in the period has contributed to HK\$26,836,000 to the Group's profit in this year.

The normal operating activities of the Group came mainly from its cement business and property investment, which results shown a significant improvement when compared with the same period of last year. Profits before taking into account of interest income, dividend income, finance costs, tax and minority interests came from the cement business and the property investment for the period were HK\$32,280,000 and HK\$3,801,000 respectively, whereas for the same period of last year, the corresponding figures were a profit of HK\$17,470,000 and a loss of HK\$14,225,000 respectively.

Since cash inflow from the Group's principal operations has been strong for the period, the board of directors has resolved to declare an interim dividend of HK\$0.04 per share to the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Cement Business

The sales quantity of cement recorded a growth of 23% to 337,000 tonnes for the first six months when compared to the figure of the same period of last year. The average sales price per tonne of cement also posted slightly higher than that of last year. It was mainly attributable to the booming construction activities in Vietnam. For the first 6 months of 2003, the construction and industry sectors of Vietnam recorded a growth of more than 10% on a year-on-year basis, whereas the overall Vietnam's GDP also recorded a growth of 6.9%. The expansion plan of the Group's cement plant has been completed on the first quarter of the year. Yet, initial adjustment and modification is still underway which has, to a certain extent, affected the progress of the production on the first half. It is expected that the full-year production of 2003 may reach 680,000 tonnes, which is a bit lower than the original target of 700,000 tonnes. Both the sales and production of cement is expected to be steady and stable for the second half of 2003.

Saigon Trade Centre and Other Investment Properties

The property market of Ho Chi Minh City in Vietnam for the first half of 2003 remained stagnant, partly attributed to the outbreak of SARS that led to the postponement of many investors' plans to set up representative offices and invest new projects in Vietnam. But as the government swiftly and successfully controlled SARS spreading in the country, the business quickly returned to normal and significant increase in foreign investments has been seen starting from the second half of the year. As compared to the figures on 31 December 2002, the lease-out rate of the Saigon Trade Centre recorded a slight growth of 1% to 55%, whereas the average rental rate recorded a growth of 5% for the first half of 2003. As the economy has been back to normal, it is expected that the lease-out rate shall increase in a more notable rate in the second half of the year.

Most of the Group's other investment properties situated in Hong Kong and the PRC were leased out providing the Group a stable revenue and constant cashflow for the period.

➤ MANAGEMENT DISCUSSION AND ANALYSIS

Biotechnology Business

On March 2003, the Group has further acquired 65% of Vigconic (International) Limited ("Vigconic") and thus, Vigconic has become a 75% owned subsidiary of the Group. Vigconic is currently conducting clinical research on several health products which are mainly for the treatment of and relieve pain from AIDS, cancer and Hepatitis B. Vigconic has also developed an anti-ageing product, namely VI-28 which after clinical trial proved to be effective in stimulating the pituitary gland of the human body for the secretion of Human Growth Hormone (HGH). Western medical studies have confirmed that HGH can fix damaged cells and prevent the death of cells of the human body, and thus to achieve the effect of anti-ageing and keeping young. The clinical trial report has been announced and presented in the World Conference of Anti-Ageing in Paris, France on February 2003. Results of VI-28 are well recognized. VI-28 will be launched into the market in the second half of this year.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's cash and bank balances as at 30 June 2003 amounted to HK\$113,804,000 (as at 31 December 2002: HK\$136,754,000). The Group's total borrowings amounted to HK\$325,810,000 (as at 31 December 2002: HK\$136,811,000), of which HK\$62,014,000 was repayable within 1 year, HK\$26,040,000 repayable between 1 and 2 years and HK\$237,756,000 repayable between 2 and 5 years. The percentage of the Group's borrowings denominated in HK\$ and Vietnamese Dong ("VND") were 66% and 34% respectively. Of the total borrowings, about 73% were at fixed interest rates.

As a result of the issuance of a 5-year promissory note for the acquisition of 65% of Vigconic (International) Limited on March 2003 amounting to HK\$200,000,000, the Group's borrowings and gearing ratio has substantially changed as compared to that of 31 December 2002.

The gearing ratio, expressed as the percentage of long-term debt to equity, was 30.4% as at 30 June 2003 (as at 31 December 2002: 8.8%).

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and Remuneration Policy

As at 30 June 2003, the Group had approximately 780 employees. Most of them were working in Vietnam. The total staff cost (including directors' remuneration) was approximately HK\$9,876,000 for the period. There was no significant change on the Group's remuneration policy as compared to that disclosed on the Group's annual report for the year ended 31 December 2002.

Details of Charges

As at 30 June 2003, the Group has pledged certain fixed assets at a net book value of HK\$316,124,000 to secure banking facilities.

Significant Investments Held

As at 30 June 2003, the Group held 12,000,000 shares of TCL International Holdings Limited representing a value of HK\$19,800,000. Subsequently, the Group has disposed all its TCL's shares in August and September 2003.

Material Acquisitions and Disposals

At the Special General Meeting convened on 24 March 2003, the Company's shareholders have passed a resolution for further acquiring 65% interests of Vigconic (International) Limited ("Vigconic"), where Mr. Luk King Tin was the major shareholder, for a total consideration of HK\$260,000,000. The consideration consists of HK\$60,000,000 cash and HK\$200,000,000 in form of a 5-year promissory note which carries an interest of 2%p.a. The procedure of the acquisition has been completed in April 2003 and thus, Vigconic has become a 75% owned subsidiary of the Group. As a result, its accounts have been incorporated into the Group's consolidated financial statements since this financial year. Besides, a facility upto HK\$30,000,000 granted to Vigconic by the Company was also approved at the Special General Meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's investments in Vietnam are subject to the exchange fluctuation, and especially that from the risk of devaluation of VND. As VND is a restricted currency, there is a lack of hedging instruments in the market. The Group's measures to minimize its exposure to the risk have not been changed from those disclosed on its annual report for the year ended 31 December 2002. The Vietnamese Dong to Hong Kong Dollar has devalued for 0.7% since 31 December 2002.

Details of Contingent Liabilities

As at 30 June 2003, the Group had no significant contingent liabilities (31 December 2002: Nil).

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The Board of Directors (the "Board") of Luks Industrial (Group) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 together with the unaudited comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Note	For the six months ended 30 June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
TURNOVER	2	124,812	96,856
Cost of sales		(62,171)	(54,003)
Gross profit		62,641	42,853
Other revenue	3	29,004	3,677
Gain on disposal of other investment		–	9,074
Capital reserve, reserve fund and exchange fluctuation reserves release on disposal of other investments		–	27,482
Unrealised holding gain/(loss) for other investments		(8,700)	20,010
Selling and distribution costs		(4,537)	(4,745)
Administrative expenses		(28,557)	(32,325)
Other operating expenses		(11,279)	(7,446)

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CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)

For the six months ended 30 June 2003

		For the six months ended 30 June	
		2003	2002
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
	Note		
PROFIT FROM OPERATING ACTIVITIES	4	38,572	58,580
Finance costs	5	(6,119)	(2,641)
PROFIT BEFORE TAX		32,453	55,939
Tax	6	–	–
PROFIT BEFORE MINORITY INTERESTS		32,453	55,939
Minority interests		(6,940)	(2,081)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		25,513	53,858
DIVIDEND			
Interim	7	12,759	12,174
EARNINGS PER SHARE	8		
Basic		8.3 cents	17.4 cents
Diluted		8.0 cents	16.8 cents

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

Note	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Reserve funds HK\$'000 (Unaudited)	Investment	Exchange	Retained	Proposed final dividend HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
						property revaluation reserve HK\$'000 (Unaudited)	fluctuation reserve HK\$'000 (Unaudited)	profits/ losses HK\$'000 (Unaudited)		
At 1 January 2003	3,038	1,070	816,649	11,280	259	96,333	(73,086)	(12,430)	18,319	861,432
Prior year adjustment	-	-	-	-	-	-	-	3,388	-	3,388
As restated	3,038	1,070	816,649	11,280	259	96,333	(73,086)	(9,042)	18,319	864,820
2002 final dividend paid	-	-	(722)	-	-	-	-	-	(18,319)	(19,041)
Shares issued on exercise of:										
Warrants	13	1,207	-	-	-	-	-	-	-	1,220
Share options	138	8,997	-	-	-	-	-	-	-	9,135
Share of reserve of jointly-controlled entities	-	-	-	-	-	-	3	-	-	3
Exchange realignments	-	-	-	-	-	(785)	(57)	-	-	(842)
Net gains and losses not recognised in the profit and loss account	-	-	-	-	-	(785)	(54)	-	-	(839)
Net profit for the period	-	-	-	-	-	-	-	25,513	-	25,513
2003 interim dividend	-	-	-	-	-	-	-	(12,759)	-	(12,759)
At 30 June 2003	3,189	11,274	815,927	11,280	259	95,548	(73,140)	3,712	-	868,049

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2003

Note	Share	Share	Contributed	Capital	Reserve	Investment	Exchange	Accumulated	Total
	capital	premium	surplus	reserve	funds	property	fluctuation	losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	revaluation	reserve	reserve	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2002	3,164	436	860,311	30,417	9,525	60,740	(79,737)	(74,054)	810,802
Prior year adjustment	1	-	-	-	-	-	-	3,388	3,388
As restated	3,164	436	860,311	30,417	9,525	60,740	(79,737)	(70,666)	814,190
Shares issued on exercise of:									
Warrants	2	237	-	-	-	-	-	-	239
Share options	6	365	-	-	-	-	-	-	371
Arising from repurchase of shares	(114)	-	(11,227)	-	-	-	-	-	(11,341)
Shares of reserve of									
joint-controlled entities	-	-	-	-	-	-	19	-	19
Exchange realignments	-	-	-	-	-	-	3,862	-	3,862
Net gains and losses not recognised									
in profit and loss account	-	-	-	-	-	-	3,881	-	3,881
Reversal on disposal of									
other investments	-	-	-	(18,848)	(9,047)	-	413	-	(27,482)
Net profit for the period	-	-	-	-	-	-	-	53,858	53,858
2002 interim dividend	7	-	(12,174)	-	-	-	-	-	(12,174)
At 30 June 2002	3,058	1,038	836,910	11,569	478	60,740	(75,443)	(16,808)	821,542

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2003

	Note	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited and restated)
NON-CURRENT ASSETS			
Fixed assets		356,555	354,037
Investment properties		502,082	505,851
Goodwill		308,613	17,501
Technical know-how		4,250	–
Interests in jointly-controlled entities		2,587	2,584
Investment securities	9	312	29,000
Other investments	10	19,800	28,500
Deferred tax asset		4,974	4,974
		1,199,173	942,447
CURRENT ASSETS			
Inventories		5,372	6,776
Trade receivables	11	23,544	13,788
Other receivables, prepayments and deposits		30,944	50,432
Short term investments		3,180	3,218
Pledged deposits		–	20,312
Cash and cash equivalents		113,804	136,754
		176,844	231,280
CURRENT LIABILITIES			
Trade payables	12	27,013	23,043
Tax payable		17,487	17,487
Dividend payable		12,759	–
Other payables and accruals		68,991	100,249
Due to directors		10,988	2,156
Due to a related company		4,646	–
Interest-bearing bank loans and borrowings		62,014	61,049
		203,898	203,984
NET CURRENT ASSETS/(LIABILITIES)		(27,054)	27,296
TOTAL ASSETS LESS CURRENT LIABILITIES		1,172,119	969,743

► INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATION BALANCE SHEET (CONTINUED)

30 June 2003

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited and restated)
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	62,438	75,258
Promissory note	200,997	–
Due to a related company	3,300	–
Rental deposits	9,725	8,950
Finance lease payables	361	504
Provisions	3,625	3,625
Deferred tax	597	597
	281,043	88,934
Minority interests	23,027	15,989
	868,049	864,820
CAPITAL AND RESERVES		
Issued capital	3,189	3,038
Reserves	864,860	843,463
Proposed final dividend	–	18,319
	868,049	864,820

➤ INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATION CASH FLOW STATEMENT

For the six months ended 30 June 2003

	For the six months ended 30 June	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	48,731	9,987
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(51,871)	61,120
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(19,756)	(53,872)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(22,896)	17,235
Cash and cash equivalents at beginning of period	136,754	48,433
Effects of foreign exchange rate changes, net	(54)	(56)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	113,804	65,612
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	68,426	51,572
Non-pledged time deposits with original maturity of less than three months when required	45,378	14,040
	113,804	65,612

▶ NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountant.

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2002, except for the adoption of SSAP 12 (Revised) "Income Taxes" and new accounting policy of technical know-how.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absences of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

This change in accounting policy has resulted in an increase in the Group's deferred tax assets, minority interest and reserves as at 31 December 2002 by HK\$4,974,000, HK\$1,586,000 and HK\$3,388,000, respectively. The consolidated accumulated losses at 1 January 2003 and 2002 have been reduced by HK\$3,388,000.

Technical know-how

Technical know-how is stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight line basis to write off the cost over its estimated useful life of 10 years.

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue and profit for the Group's business segments.

	Cement products		Property investment		Investment		Others		Consolidated	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Segment revenue:										
Sales to external customers	101,317	81,217	21,022	13,505	-	-	2,473	2,134	124,812	96,856
Other revenue	310	65	-	1,210	26,874	48	10	62	27,194	1,385
Total	101,627	81,282	21,022	14,715	26,874	48	2,483	2,196	152,006	98,241
Segment results	32,280	17,470	3,801	(14,225)	4,015	52,734	(3,334)	309	36,762	56,288
Interest and dividend income									1,810	2,292
Profit from operating activities									38,572	58,580
Finance costs									(6,119)	(2,641)
Profit before tax									32,453	55,939
Tax									-	-
Profit before minority interests									32,453	55,939
Minority interests									(6,940)	(2,081)
Net profit from ordinary activities attributable to shareholders									25,513	53,858

(b) Geographical segments

The following tables present revenue for the Group's geographical segments.

	Hong Kong		Elsewhere in the PRC		Vietnam		Consolidated	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Segment revenue:								
Sales to external customers	1,729	987	5,898	4,091	117,185	91,778	124,812	96,856

▶ NOTES TO THE FINANCIAL STATEMENTS

3. OTHER REVENUE

	For the six months ended 30 June	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Dividend income from other investment	–	735
Written back of other payable	26,836	–
Interest income	1,810	1,557
Others	358	1,385
	29,004	3,677

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Depreciation	11,076	12,236
Amortisation of goodwill	7,937	460
Amortisation of technical know-how	125	–
Research and development costs	1,901	–
Cost of inventories sold	62,171	54,003
Salary and wages expenses (include directors' remuneration)	9,876	9,161
Impairment on an investment security	78	78
Net rental income	(19,912)	(12,613)

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5. FINANCE COSTS

	For the six months ended 30 June	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Interest expense on:		
Bank loans repayable within five years	4,980	2,462
Loans from directors repayable within five years	109	146
Finance leases	33	33
Promissory note	997	–
	6,119	2,641

6. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits which were earned in or derived from Hong Kong for either of the period ended 30 June 2003 and 2002.

7. DIVIDEND

The Board has resolved to declare an interim dividend of 4 cents per ordinary share in issue in respect of the six months ended 30 June 2003 (2002: 4 cents) payable on or before 22 October 2003 to shareholders where names are on the Registers of Members on 15 October 2003.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$25,513,000 (2002: net profit of HK\$53,858,000) and the weighted average of 307,651,602 (2002: 309,372,562) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$25,513,000 (2002: HK\$53,858,000). The weighted average number of ordinary shares used in the calculation is 307,651,602 (2002: 309,372,562) ordinary shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 7,050,482 (2002: 6,781,406) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period; and the weighted average of 4,051,614 (2002: 5,118,017) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

» NOTES TO THE FINANCIAL STATEMENTS

9. INVESTMENT SECURITIES

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
At cost:		
Equity investment listed overseas	23,878	23,878
Provision for impairment	(23,566)	(23,488)
	312	390
Unlisted equity investment	–	28,610*
	312	29,000

- * At 31 December 2002, the Group had 10% equity interest in Vigconic (International) Limited ("VI"). The principal activity of VI was engaged in the research, development, and future manufacture and sale of holistic health care products. On 3 January 2003, the Group acquired the entire issued share capital of Heritage Ventures International Limited (the "Heritage"), which owns 65% of the enlarged issued share capital of VI. After acquisition, VI became a 75% subsidiary of the Group during the period 2003. Further details of the acquisition are set out with the Company's circular dated 7 March 2003.

10. OTHER INVESTMENTS

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Listed equity investments in Hong Kong, at fair value	19,800	28,500

▶ NOTES TO THE FINANCIAL STATEMENTS

11. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date are as follows:

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
0 – 30 days	11,372	11,166
31 – 60 days	2,969	874
61 – 90 days	1,249	705
91 – 120 days	223	253
Over 120 days	7,671	767
Over 1 year	60	23
	23,544	13,788

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

12. TRADE PAYABLES

An aged analysis of trade payables as at the balance sheet date are as follows:

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
0 – 30 days	9,027	5,008
31 – 60 days	3,423	1,886
61 – 90 days	68	1,430
91 – 120 days	40	86
Over 120 days	239	338
Over 1 year	14,216	14,295
	27,013	23,043

➤ NOTES TO THE FINANCIAL STATEMENTS

13. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Within one year	34,898	29,488
In the second to fifth years, inclusive	37,194	46,927
	72,092	76,415

14. COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Authorised and contracted for fixed assets	2,120	5,901
Capital contributions to an associate	2,282	2,282
Total capital commitments	4,402	8,183

NOTES TO THE FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

		For the six months ended 30 June	
	<i>Notes</i>	2003	2002
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Investee companies:			
Sales of raw materials	<i>(i)</i>	–	73
Purchases of finished goods	<i>(ii)</i>	–	789
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Directors:			
Interest expense	<i>(iii)</i>	109	159
Interest on promissory note	<i>(iv)</i>	997	–
Acquisition of the entire issued share capital in Heritage	<i>(v)</i>	260,000	–
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Notes:

- (i) The sales of raw materials to investee companies were charged at cost plus a margin.
- (ii) The purchases of finished goods from investee companies were made according to the prices negotiated between the parties.
- (iii) Interest expense was paid to directors on the amounts due to them at the Hong Kong prime rate plus 1% per annum.
- (iv) Interest expense was payable for promissory note at 2% per annum to a director.
- (v) The purchase price was determined after arm's length negotiation between the parties to the Agreement with reference to the business valuation of VI as at 31 December 2002 by an independent valuer. Further details of the acquisition are set out with the Company's circular dated on 7 March 2003.

16. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group disposed all of other investments in TCL International Holdings Limited. This transaction is expected to result in a gain on disposal before expenses of approximately HK\$7,725,000.

17. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the board of directors on 24 September 2003.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 13 October 2003 to Wednesday, 15 October 2003, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tengis Limited, at G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 10 October 2003. Cheques for interim dividends will be despatched on or before 22 October 2003.

REVIEW BY AUDIT COMMITTEE

The Group has an audit committee comprising of the two independent non-executive directors of the Company. The Group's audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

The interim figures and financial statements for the six months ended 30 June 2003 have not been audited but have been reviewed by the Audit Committee.

WARRANTS

During the period, 1,355,999 warrants were exercised for the subscription of 1,355,999 shares of HK\$0.01 each at the exercise price of HK\$0.9 per share. As at 30 June 2003, the Company had 63,261,313 warrants outstanding, and the exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 63,261,313 additional shares of HK\$0.01 each.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2003, the directors and their associates have the following interest or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the

➤ OTHER INFORMATION

“SFO”), as notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”) were as follows:

(i) Long position in the shares of the Company

Name of Directors	Number of shares held and nature of interest			Total	Percentage of the issued share capital
	Personal	Corporate	Family		
Luk King Tin	45,683,261	47,688,393 *	–	93,371,654	29.28
Cheng Cheung	10,430,000	31,574,819 **	–	42,004,819	13.17
Wong Hoi Wah	702,400	–	–	702,400	0.22
Luk Yan	3,309,000	–	45,000	3,354,000	1.05
Fan Chiu Tat, Martin	500,000	–	–	500,000	0.16

(ii) Long position in the underlying shares of the Company

Warrants:

Name of Directors	Number of underlying shares held and nature of interest			Total	Percentage of the issued share capital
	Personal	Corporate	Family		
Luk King Tin	7,796,652	9,537,678 *	–	17,334,330	5.43
Cheng Cheung	2,086,000	6,314,963 **	–	8,400,963	2.63
Wong Hoi Wah	140,480	–	–	140,480	0.04
Luk Yan	61,800	–	9,000	70,800	0.02

➤ OTHER INFORMATION

(iii) Long position in the debenture of the Company

Promissory note:

Name of Director	Principal Amount HK\$	Nature of interest
Luk King Tin	200,000,000 ***	Personal

(iv) Long position in the shares of associated corporation of the Company

Name of Director	Name of associated corporation	Number of shares held and nature of interest			Percentage of interest in associated corporation
		Personal	Corporate	Total	
Luk King Tin	Vigconic (International) Limited	1,000	98,996 #	99,996	25%

* These shares and warrants were held by KT (Holdings) Limited of which Mr. Luk King Tin had a beneficial interest.

** These shares and warrants were held by CC (Holdings) Limited of which Madam Cheng Cheung had a beneficial interest.

*** The promissory note was issued by the Company to Mr. Luk King Tin, being part of the consideration for the acquisition of the entire issued share capital of Heritage. Further details of the promissory note are set out with the Company's circular dated 7 March 2003.

These shares were held by Vigconic Biotechnology Company Limited of which Mr. Luk King Tin had a beneficial interest.

Save as disclosed above, none of the directors or their associates had any interest or short positions in shares, underlying shares and debentures of the Company or its associated corporations, as notified to the Company, and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SHARE OPTION SCHEME

The following share options were outstanding under the Company's Scheme during the period:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options * HK\$	Price of Company's shares**	
	At 1 January 2003	Exercised during the period	At 30 June 2003				At grant date of options HK\$	At exercise date of options HK\$
Directors								
Luk King Tin	6,700,000	6,700,000	–	4 April 2001	4 April 2001 to 11 August 2004	0.65	0.68	1.05
Luk Yan	3,000,000	3,000,000	–	4 April 2001	4 April 2001 to 11 August 2004	0.65	0.68	1.05
	<u>9,700,000</u>	<u>9,700,000</u>	<u>–</u>					
Other employees								
In aggregate	5,800,000	500,000	5,300,000	4 April 2001	4 April 2001 to 11 August 2004	0.98	1.32	1.15
	3,890,000	3,600,000	290,000	4 April 2001	4 April 2001 to 11 August 2004	0.65	0.68	1.05
	<u>9,690,000</u>	<u>4,100,000</u>	<u>5,590,000</u>					
	<u>19,390,000</u>	<u>13,800,000</u>	<u>5,590,000</u>					

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The price of the Company's shares disclosed as at the date of the grant of the share options is the Hong Kong Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

➤ OTHER INFORMATION

No options were expired, granted or cancelled during the period.

Details of the Company's Scheme are set out in pages from 64 to 66 of Annual Report 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed under the heading "Directors' interests in securities" and "Share Option Scheme", at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the person/companies, other than a Director or chief executive of the Company, who had notified the Company of the 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 were as follows:

(i) Long position in the shares of the Company

Name of shareholders	Number of issued shares held	Percentage of the Company's issued share capital
KT (Holdings) Limited	47,688,393 *	14.95
CC (Holdings) Limited	31,574,819 **	9.90

➤ OTHER INFORMATION

(ii) Long position in the underlying shares of the Company

Warrants:

Name of shareholders	Number of underlying shares held	Percentage of the issued share capital
KT (Holdings) Limited	9,537,678 *	2.99
CC (Holdings) Limited	6,314,963 **	1.98

Notes:

- * Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited. The above interests have already been disclosed as corporate interest of Mr. Luk King Tin in the section headed "Directors' interests in securities".
- ** Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited. The above interests have already been disclosed as corporate interest of Madam Cheng Cheung in the section headed "Directors' interests in securities".

Save as disclosed above, the Company has not been notified by any person (other than directors or chief executive of the Company) who has an interest or short positions in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALES AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

 **OTHER INFORMATION****CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, at any time during the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

By Order of the Board

Luk King Tin

Chairman

Hong Kong, 24 September 2003