



**WellNet** Holdings Limited

創新發展集團有限公司

2003

Interim Report



## INTERIM ACCOUNTS

The Directors of WellNet Holdings Limited (the “Company”) are pleased to present the unaudited condensed consolidated accounts of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 as follows:–

### Condensed Consolidated Profit and Loss Account

		<b>Unaudited</b> <b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000 (As restated)
<b>Turnover</b>	2	<b>2,347,080</b>	1,683,309
Cost of sales		<b>(2,268,706)</b>	(1,557,298)
Gross profit		<b>78,374</b>	126,011
Other revenue		<b>3,958</b>	5,285
Selling and distribution expenses		<b>(21,244)</b>	(14,134)
General and administrative expenses		<b>(25,478)</b>	(52,437)
Gain (Loss) on investments, net		<b>725</b>	(141)
Profit from operations	2 & 3	<b>36,335</b>	64,584
Finance costs	4	<b>(15,575)</b>	(9,867)
Share of profits less losses of associates		<b>(2,012)</b>	1,150
<b>Profit before taxation</b>		<b>18,748</b>	55,867
Taxation	5	<b>(153)</b>	(2,046)
<b>Profit after taxation</b>		<b>18,595</b>	53,821
Minority interests		<b>2,086</b>	(2,224)
<b>Profit attributable to shareholders</b>		<b>20,681</b>	51,597
Earnings per share – basic	6	<b>1.96 HK Cents</b>	5.46 HK Cents
– diluted		<b>1.94 HK Cents</b>	5.33 HK Cents



## Condensed Consolidated Balance Sheet

	Notes	<b>Unaudited 30 June 2003 HK\$'000</b>	As restated 31 December 2002 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		174,141	161,351
Investment properties		433,449	433,841
Investment in associates		51,185	53,952
Long-term investments		29,434	29,488
Deferred borrowing costs		3,275	3,951
Deferred tax assets		3,559	2,929
		<hr/>	<hr/>
Total non-current assets		<b>695,043</b>	685,512
<b>Current assets</b>			
Inventories		115,170	49,230
Properties held for sale		27,351	29,469
Short-term investments		743	6,084
Bills and accounts receivable	7	933,110	968,422
Deposits, prepayments and other receivables		142,853	45,473
Taxation recoverable		2,072	1,395
Pledged bank deposits		3,692	40,503
Other cash and bank balances		140,037	273,832
		<hr/>	<hr/>
Total current assets		<b>1,365,028</b>	1,414,408
<b>Current liabilities</b>			
Short-term bank borrowings		275,349	368,688
Due to associates		19,061	10,676
Bills and accounts payable	8	434,881	469,082
Other payables and accruals		115,146	35,146
Obligations under finance leases – current portion		1,910	1,686
Dividend payable		42,157	–
Taxation payable		15,989	20,941
		<hr/>	<hr/>
Total current liabilities		<b>904,493</b>	906,219
		<hr/>	<hr/>
<b>Net current assets</b>		<b>460,535</b>	508,189
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<b>Total assets less current liabilities</b>		<b>1,155,578</b>	1,193,701
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**Condensed Consolidated Balance Sheet (Continued)**

	Notes	<b>Unaudited 30 June 2003 HK\$'000</b>	As restated 31 December 2002 HK\$'000
<b>Financed by –</b>			
Share capital	9	<b>105,512</b>	105,392
Other reserves		<b>505,598</b>	504,792
Retained profit		<b>225,072</b>	204,391
Proposed dividends		<b>–</b>	42,157
		<hr/>	<hr/>
<b>Shareholders' funds</b>		<b>836,182</b>	856,732
		<hr/>	<hr/>
<b>Minority interests</b>		<b>50,905</b>	52,293
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Long-term bank loans		<b>217,957</b>	234,449
Other loans		<b>6,567</b>	6,567
Obligations under finance leases		<b>5,642</b>	5,874
Deferred tax liabilities		<b>38,325</b>	37,786
		<hr/>	<hr/>
		<b>268,491</b>	284,676
		<hr/>	<hr/>
		<b>1,155,578</b>	1,193,701
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## Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Net cash outflow from operating activities	(57,350)	(15,586)
Net cash outflow from investing activities	(11,248)	(42,544)
Net cash (outflow) inflow from financing activities	(102,008)	49,588
Decrease in pledged bank deposits	36,811	13,046
(Decrease) Increase in cash and cash equivalents	(133,795)	4,504
Cash and cash equivalents, beginning of the period	273,832	175,428
Cash and cash equivalents, end of the period	140,037	179,932
Analysis of the balances of cash and cash equivalents	140,037	179,932
Cash and bank balances	140,037	179,932



## Condensed Consolidated Statement of Changes in Equity

	Unaudited six months ended 30 June 2003							
	Share capital HK\$'000	Capital redemption reserve HK\$'000	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Cumulative translation reserve HK\$'000	Retained profit HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1 January 2003, as previously reported	105,392	9,678	470,632	45,713	75	208,575	42,157	882,222
Effect of changes in accounting policies (Note 1)	-	-	-	(21,306)	-	(4,184)	-	(25,490)
At 1 January 2003, as restated	105,392	9,678	470,632	24,407	75	204,391	42,157	856,732
Exchange differences arising on translation of the accounts of foreign subsidiaries	-	-	-	-	443	-	-	443
Net gains and losses not recognised in the profit and loss account	-	-	-	-	443	-	-	443
Profit attributable to shareholders	-	-	-	-	-	20,681	-	20,681
Reserve realised upon disposal of investment properties	-	-	-	(67)	-	-	-	(67)
Transfer to dividend payable	-	-	-	-	-	-	(42,157)	(42,157)
Issue of share capital	120	-	433	-	-	-	-	553
Share issuance expenses	-	-	(3)	-	-	-	-	(3)
At 30 June 2003	<u>105,512</u>	<u>9,678</u>	<u>471,062</u>	<u>24,340</u>	<u>518</u>	<u>225,072</u>	<u>-</u>	<u>836,182</u>

**Condensed Consolidated Statement of Changes in Equity (Continued)**

	Unaudited six months ended 30 June 2002							
	Share capital HK\$'000	Capital redemption reserve HK\$'000	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Cumulative translation reserve HK\$'000	Retained profit HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1 January 2002, as previously reported	93,867	9,289	388,330	81,547	(4,793)	172,938	18,781	759,959
Effect of changes in accounting policies (Note 1)	-	-	-	(25,453)	-	(5,420)	-	(30,873)
At 1 January 2002, as restated	93,867	9,289	388,330	56,094	(4,793)	167,518	18,781	729,086
Exchange differences arising on translation of the accounts of foreign subsidiaries	-	-	-	-	618	-	-	618
Net gains and losses not recognised in the profit and loss account	-	-	-	-	618	-	-	618
Profit attributable to shareholders	-	-	-	-	-	51,597	-	51,597
Reserve realised upon disposal of investment properties	-	-	-	(1,251)	-	-	-	(1,251)
Recognition of translation difference in the profit and loss account	-	-	-	-	3,940	-	-	3,940
Transfer to dividend payable	-	-	-	-	-	-	(18,781)	(18,781)
Issue of share capital	10,297	-	81,122	-	-	-	-	91,419
Share issuance expenses	-	-	(2,190)	-	-	-	-	(2,190)
At 30 June 2002	<u>104,164</u>	<u>9,289</u>	<u>467,262</u>	<u>54,843</u>	<u>(235)</u>	<u>219,115</u>	<u>-</u>	<u>854,438</u>



## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. Accounting policies

The unaudited condensed interim accounts 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 Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies used in the preparation of the condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2002, except for the adoption of the revised SSAP No. 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003.

On adoption of the revised SSAP No. 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and of investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP No. 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. Opening retained earnings at 1 January 2002 and 2003 have been reduced by HK\$5,420,000 and HK\$4,184,000 respectively and investment property revaluation reserve at 1 January 2002 and 2003 have been reduced by HK\$25,453,000 and HK\$21,306,000 respectively which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK\$2,929,000 and HK\$37,786,000 respectively. The profit for the six months ended 30 June 2002 has been increased by HK\$419,000.





## 2. Segment information

### (a) Primary segment

The Group is organised into four major operating units: (i) steel trading, warehousing and distribution; (ii) steel manufacturing and processing; (iii) property development; and (iv) property investment. An analysis by business segment is as follows:

	Unaudited Six months ended 30 June			
	2003		2002	
	External sales HK\$'000	Internal segment sales HK\$'000	External sales HK\$'000	Internal segment sales HK\$'000
Turnover				
- Steel trading, warehousing and distribution	2,207,614	22,875	1,519,888	20,444
- Steel manufacturing and processing	126,067	-	113,417	-
- Property development	7,127	-	16,418	-
- Property investment	6,210	-	4,483	-
- Others	62	-	29,103	3,097
	<u>2,347,080</u>	<u>22,875</u>	<u>1,683,309</u>	<u>23,541</u>
Inter-segment elimination	-	(22,875)	-	(23,541)
	<u>2,347,080</u>	<u>-</u>	<u>1,683,309</u>	<u>-</u>

	Unaudited Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Profit from operations		
- Steel trading, warehousing and distribution	40,666	57,809
- Steel manufacturing and processing	6,255	15,306
- Property development	(993)	7,295
- Property investment	3,330	3,038
- Others	(568)	3,361
- Unallocated expenses	(12,355)	(22,225)
	<u>36,335</u>	<u>64,584</u>



## 2. Segment information (Continued)

### (b) Secondary segment

The Group has business operations in Mainland China, Hong Kong, Asia (other than Mainland China and Hong Kong) and other regions. An analysis by geographical location is as follows:

	<b>Unaudited Six months ended 30 June</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
Turnover		
– Mainland China	<b>2,074,362</b>	1,520,907
– Hong Kong	<b>37,305</b>	67,549
– Asia (other than Mainland China and Hong Kong)	<b>214,931</b>	78,662
– Others	<b>20,482</b>	16,191
	<b><u>2,347,080</u></b>	<u>1,683,309</u>
Profit from operations		
– Mainland China	<b>38,311</b>	80,433
– Hong Kong	<b>5,204</b>	5,240
– Asia (other than Mainland China and Hong Kong)	<b>4,725</b>	1,053
– Others	<b>450</b>	83
– Unallocated expenses	<b>(12,355)</b>	(22,225)
	<b><u>36,335</u></b>	<u>64,584</u>

## 3. Profit from operations

	<b>Unaudited Six months ended 30 June</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
Profit from operations is stated after charging and crediting the following:		
Depreciation of fixed assets	<b>(6,225)</b>	(6,705)
Amortisation of intangible assets	<b>–</b>	(1,168)
Loss on disposal of fixed assets	<b>(228)</b>	(896)
Gain on disposal of investment properties	<b>228</b>	117
Gain on disposal of investments	<b>307</b>	–
	<b><u>307</u></b>	<u>–</u>



## 4. Finance costs

	<b>Unaudited</b> <b>Six months ended 30 June</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Interest on borrowings	<b>14,899</b>	9,867
Amortisation of deferred borrowing costs	<b>676</b>	–
	<b>15,575</b>	<b>9,867</b>

## 5. Taxation

	<b>Unaudited</b> <b>Six months ended 30 June</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Current taxation		
– Hong Kong profits tax	<b>21</b>	106
– Overseas taxation	<b>326</b>	2,789
Over provision in prior years	<b>(1,310)</b>	(797)
Deferred taxation	<b>(42)</b>	(419)
	<b>(1,005)</b>	1,679
Share of taxation attributable to associates	<b>1,158</b>	367
	<b>153</b>	<b>2,046</b>

The Company is exempted from taxation in Bermuda until 2016. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the six months period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax ranging from 15% to 33% (2002: 15% to 33%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the six months period at the rates prevailing in the respective jurisdictions.

Under the relevant tax rules in Mainland China, a subsidiary of the Group is subject to Mainland China land appreciation tax ("LAT"). However, up to 30 June 2003, the Group had not been required by the local tax bureau to make any tax payments in respect of the LAT. Taking into account the common practice of the levy of LAT in various cities in Mainland China, the Directors consider it is unlikely that the Group will be required to make any payment in respect of Mainland China LAT, and accordingly, no provision on any LAT was made in the accounts.



## 6. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of approximately HK\$20,681,000 (2002: HK\$51,597,000) and the weighted average number of 1,054,031,166 (2002: 944,464,831) shares in issue during the period. The calculation of diluted earnings per share is based on the consolidated profit attributable to shareholders of approximately HK\$20,681,000 (2002: HK\$51,597,000) and the weighted average number of 1,054,031,166 (2002: 944,464,831) shares in issue during the period plus the weighted average number of 9,826,952 (2002: 23,566,839) shares deemed to be issued at no consideration if all outstanding options had been exercised.

A reconciliation of the weighted average number of shares used in calculating the basic earnings per share and the diluted earnings per share is as follows:

	<b>Unaudited</b> <b>Six months ended 30 June</b>	
	<b>2003</b> <b>Number of</b> <b>shares</b>	2002 Number of shares
Weighted average number of shares used in calculating basic earnings per share	<b>1,054,031,166</b>	944,464,831
Adjustment for potential dilutive effect in respect of outstanding employee share options	<b>9,826,952</b>	23,566,839
	<b><u>1,063,858,118</u></b>	<u>968,031,670</u>

## 7. Bills and accounts receivable

The Group normally grants to its customers credit period for sales of goods ranging from 30 days to 120 days. Consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreement. Rental in respect of leased properties is payable by the tenants on monthly basis.

Ageing analysis of bills and accounts receivable is as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2003</b> <b>HK\$'000</b>	Audited 31 December 2002 HK\$'000
Within three months	<b>667,228</b>	962,579
Over three months but within six months	<b>263,156</b>	4,678
Over six months	<b>2,962</b>	1,401
	<b><u>933,346</u></b>	<u>968,658</u>
Less: Provision for doubtful debts	<b>(236)</b>	(236)
	<b><u>933,110</u></b>	<u>968,422</u>

**8. Bills and accounts payable**

Ageing analysis of bills and accounts payable is as follows:

	<b>Unaudited 30 June 2003 HK\$'000</b>	Audited 31 December 2002 HK\$'000
Within three months	<b>434,827</b>	468,840
Over three months but within six months	—	—
Over six months	<b>54</b>	242
	<b><u>434,881</u></b>	<u>469,082</u>

**9. Share capital**

	<b>Number of shares '000</b>	<b>Unaudited HK\$'000</b>
<i>Authorised:</i>		
Ordinary shares of HK\$0.10 each	<u>1,800,000</u>	<u>180,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each		
Beginning of the period	1,053,919	105,392
Issued upon exercise of employee share options	<u>1,200</u>	<u>120</u>
End of the period	<u>1,055,119</u>	<u>105,512</u>

**10. Related party transactions**

During the period, the Group had the following transactions with related parties conducted in accordance with the terms of the relevant agreements or arrangements and in the normal course of business:—

- (a) interest paid to a minority shareholder of a subsidiary amounted to HK\$19,000;
- (b) commission paid to an associate amounted to HK\$2,879,000; and
- (c) service fee paid to an associate amounted to HK\$575,000.

**11. Comparative figures**

Other than the restatement of figures for the adoption of the revised SSAP No. 12 as detailed in note 1 above, certain prior year comparative figures have been reclassified to conform with current period's presentation.

**DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).



## REVIEW OF OPERATION AND PROSPECTS

In the period under review, the global steel market went through a period of readjustment. The outbreak of the Severe Acute Respiratory Syndrome ("SARS") epidemic across the world had hit hard on China also. As a result, the steel and property businesses of the Group were affected, causing a less satisfactory profit return for the period when compared with the same period last year.

### Steel Business

Global steel price maintained its upward spiral last year. China, the world's largest steel consumption market, suffered an excess in reserve as a result of over-import and production. This eventually led to a relatively significant readjustment in the market in the first half of the year. Furthermore, cross-border business negotiation and logistics and sales activities were hampered by the SARS outbreak. The Group's international steel trading as well as warehousing and distribution businesses were subject to pressure and consequently, performance of these business sectors in the period under review was not as satisfactory as that for the same period last year. However, following the gradual easing of the overall industry reserve position, steel prices had stabilised and steel consumers were back to the market. Driven by the various promising factors, China's demand for steel would remain to be keen. It is therefore envisaged that the Group's steel business will have improvement in the second half of the year.

As for our steel manufacturing and processing business, the completion of the expansion of the steel pipe processing plant in Dongguan has enabled a lower production cost on the one hand and increased the production capacity by 40% on the other. Further growth in output level would pave its way to be benefited from economies of scale. To cater for market demands for cutting and slitting in high value-added steel sheets, the Group launched a newly invested coil centre officially in March this year. Operation has been satisfactory. In the period under review, the pipe centre experienced a drop in client orders owing to price volatility and the outbreak of SARS. However, business volume at present had resumed to the level before the outbreak. The coil centre's order sales has been improving through months, while costs on the reverse. It is anticipated that this business activity will constitute another revenue generating sector for the Group in future.



## REVIEW OF OPERATION AND PROSPECTS *(Continued)*

### Property Development and Investment

Our Times Square in Yangzhou, Jiangsu Province, was given an acid test during the outbreak of SARS. As part of the country's policy in controlling the spread of the disease, certain popular areas in the mall such as cinemas and children fun-land had to be closed for a period of time. Fortunately, with SARS fading out and as a result of stringent cleaning measures and active promotional efforts, consumer confidence was quickly restored and consumers' spending at the shopping mall had picked up fully. Since the opening of the first phase in last April, continual efforts were directed at ensuring an all rounded and multi-sector mix of tenants for the shopping mall as well as strengthening the operation management. Since this September, the shopping mall has been in full operation. At the beginning of the year, a number of major tenants were introduced to the shopping mall, including electrical appliance city, digital cinema and chain-operated restaurants. For the second half of the year, other major tenants such as business leisure centres, supermarkets, jewellery, accessories and watches specialty counters will move in. This will further enrich the business diversity of the shopping mall. Meanwhile, as a result of the SARS epidemic, the store selling exercise was far from active in the first half year, but it will be revitalized in the second half, as planned. In tandem with the steady economic growth of Yangzhou, this will generate long-term return on investment and stable cash flow for the Group.

The Group's investment property in Mongkok, Hong Kong has been leased to tenants in the retail sector. For a time during the attack of SARS in Hong Kong, relief measures were required for these tenants. The recent introduction of "individual travel" by China to allow individual visitors to come to Hong Kong would substantially benefit the local retail sector. It is therefore envisaged that the investment property would continue to bring in stable and satisfactory rental income for the Group.

### Prospects

Notwithstanding the effect of consolidation of the steel market and the sudden blow dealt by SARS epidemic, the Group's core steel business emerged from the ordeal with an enhanced ability for crisis management. Looking forward to the second half of the year, China will continue with a robust fiscal policy in promoting domestic demands while maintaining sustained rapid growth in fixed asset investment. Major initiatives, including the development of the West region, water diversion from the south provinces to the north, energy transportation from the western region to East China and the 2008 Beijing Olympic Games, will drive up demand for steel from major steel consumption industries, headed by the automobile, construction and machinery manufacturing sectors. Leveraging on the Group's experience in integrating vertically the upper, middle and lower streams, with operation in the three levels of activities of international steel trading, warehousing and logistic services as well as manufacturing and processing, the Group will be able to participate fully in the supply chain of the steel business and to capitalise on its competitive advantage further. It is therefore envisaged that the steel business will turn around in performance for the second half of the year.



## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and bank balances of approximately HK\$143,729,000 (31 December 2002: HK\$314,335,000) as at 30 June 2003.

As at 30 June 2003, the Group's current ratio, as a ratio of current assets to current liabilities, was 1.51 (31 December 2002: 1.56) and the Group's gearing ratio, as a ratio of total liabilities to total assets, was 0.57 (31 December 2002: 0.57).

As at 30 June 2003, the bank borrowings of the Group was approximately HK\$493,306,000 (31 December 2002: HK\$603,137,000). The maturity profile of the Group's bank borrowings, excluding the short-term loans on trade finance amounted to HK\$172,716,000 (31 December 2002: HK\$287,341,000), as at 30 June 2003 was as follows:

	<b>30 June 2003</b> <i>HK\$' million</i>	31 December 2002 <i>HK\$' million</i>
Within one year	<b>103</b>	82
In the second year	<b>45</b>	42
In the third to fifth year	<b>119</b>	139
After the fifth year	<b>54</b>	53
	<b>321</b>	316

All the Group's bank borrowings were denominated in Hong Kong Dollar, US Dollar and Renminbi, bearing interest at prevailing market rates. No material exchange risk is expected on the bank borrowings and no financial instruments have been used for hedging purposes during the period.

## CONTINGENT LIABILITIES

There has been no material change in the Group's contingent liabilities since 31 December 2002.

## CHARGE ON ASSETS

As at 30 June 2003, the following assets were pledged: (i) certain leasehold land and buildings with a net book value of approximately HK\$106,135,000; (ii) certain motor vehicles and machinery of approximately HK\$8,825,000; (iii) certain investment properties with a net book value of approximately HK\$321,099,000; (iv) certain properties held for sale of approximately HK\$21,387,000; (v) certain inventories of approximately HK\$59,640,000 released under trust receipts bank loans; and (vi) bank deposits amounted to approximately HK\$3,692,000.





## STAFF

As at 30 June 2003, the Group employed 683 staff. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Group also provides other staff benefits which include year end double pay, contributory provident fund and medical insurance. Share options and discretionary bonus may also be granted to eligible staff based on individual and Group performance. Training programmes for staff are provided as and when required.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2003.

## ISSUE OF SHARES

During the six months ended 30 June 2003, the Company issued a total of 1,200,000 new ordinary shares of HK\$0.10 each upon the exercise of share options by the optionholders.

## SHARE OPTION SCHEMES

At the 2002 Annual General Meeting of the Company held on 6 June 2002, the share option scheme of the Company being adopted on 23 July 1999 (the "Old Option Scheme") was terminated and a new share option scheme (the "New Option Scheme") was adopted by the shareholders to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Upon termination of the Old Option Scheme, no further options could be granted thereunder but in all other respects, the provisions of the Old Option Scheme shall remain in force. All outstanding options which were granted under the Old Option Scheme to subscribe for shares in the Company prior to its termination shall continue to be valid and exercisable. As at 30 June 2003, there are options for 22,000,000 shares granted under the Old Option Scheme which are valid and outstanding.

No options had been granted, exercised nor cancelled since the adoption of the New Option Scheme on 6 June 2002.



## SHARE OPTION SCHEMES (Continued)

Movement of share options granted under the Old Option Scheme during the six months ended 30 June 2003:

(i) Name of Director	No. of shares under the options				Price for grant HK\$	Exercise price per share HK\$	Date of grant	Exercise period	
	Held as at 01/01/2003	Exercised during the period	Lapsed during the period	Held as at 30/06/2003				from	until
CHAN Shing	4,500,000	-	4,500,000	-	1.00	0.68	29/03/2000	27/06/2000	26/06/2003
	5,400,000	-	-	5,400,000	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
LAU Ting	4,500,000	-	4,500,000	-	1.00	0.68	29/03/2000	27/06/2000	26/06/2003
	5,400,000	-	-	5,400,000	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
YU Wing Keung, Dicky	2,000,000	-	2,000,000	-	1.00	0.68	29/03/2000	27/06/2000	26/06/2003
	2,000,000	-	-	2,000,000	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
TUNG Pui Shan, Virginia	1,000,000	-	-	1,000,000	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
KWOK Wai Lam	1,000,000	-	-	1,000,000	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
YIN Mark	1,000,000	-	-	1,000,000	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
SIT Hoi Tung	2,000,000	-	2,000,000	-	1.00	0.68	29/03/2000	27/06/2000	26/06/2003
	3,100,000	-	-	3,100,000	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
SUN Ho	2,000,000	-	2,000,000	-	1.00	0.68	29/03/2000	27/06/2000	26/06/2003
	3,100,000	-	-	3,100,000	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
(ii) Continuous contract employees	1,200,000	1,200,000 (Note)	-	-	1.00	0.461	07/05/2001	05/08/2001	04/08/2004
<b>Total:</b>	<u>38,200,000</u>	<u>1,200,000</u>	<u>15,000,000</u>	<u>22,000,000</u>					

Note: The weighted average closing market price per share immediately before the date on which the options were exercised was HK\$0.8049.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (1) Interests in Shares

#### (A) The Company

Name of Director	Number of ordinary shares			Total	Approximate percentage interest in the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
CHAN Shing	13,035,472	21,776,072 (Note 1)	438,304,701 (Notes 2&3)	473,116,245 (Note 3)	44.84%
LAU Ting	21,776,072	13,035,472 (Note 4)	438,304,701 (Notes 2&3)	473,116,245 (Note 3)	44.84%
YU Wing Keung, Dicky	4,789,778	-	-	4,789,778	0.45%
TUNG Pui Shan, Virginia	8,461,996	110,000	5,104,000 (Note 5)	13,675,996	1.30%
YIN Mark	2,930,000	-	-	2,930,000	0.28%
SIT Hoi Tung	1,576,382	-	-	1,576,382	0.15%
SUN Ho	606,000	-	-	606,000	0.06%



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (1) Interests in Shares (Continued)

#### (A) The Company (Continued)

##### Notes:

- These shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing.
- 226,403,853 shares were held by Hang Sing Overseas Limited ("Hang Sing") which is owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 211,900,848 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting.
- The interests of Mr. CHAN Shing and Ms. LAU Ting were duplicated.
- These shares were owned by Mr. CHAN Shing.
- 5,104,000 shares were owned by Focus Cheer Consultants Limited ("Focus Cheer"), a company which is wholly-owned by Ms. TUNG Pui Shan, Virginia.

#### (B) Associated Corporation – WorldMetal Holdings Limited ("WorldMetal")

Name of Director	Number of ordinary shares			Total	Approximate percentage interest in the issued share capital of WorldMetal
	Personal interests	Family interests	Corporate interests		
CHAN Shing	72,951,773	50,288,803 (Note 1)	485,746,308 (Notes 2&3)	608,986,884 (Note 3)	60.90%
YANG Da Wei	3,000,000	-	-	3,000,000	0.30%
LAU Ting	50,288,803	72,951,773 (Note 4)	485,746,308 (Notes 2&3)	608,986,884 (Note 3)	60.90%
YU Wing Keung, Dicky	28,100,000	-	-	28,100,000	2.81%
TUNG Pui Shan, Virginia	3,183,610	5,500	255,200 (Note 5)	3,444,310	0.34%
KWOK Wai Lam	3,000,000	-	-	3,000,000	0.30%
YIN Mark	3,016,900	-	-	3,016,900	0.30%
SIT Hoi Tung	3,078,819	-	-	3,078,819	0.31%
SUN Ho	5,000,000	30,000	-	5,030,000	0.50%



## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)*

### **(1) Interests in Shares** *(Continued)*

#### *(B) Associated Corporation – WorldMetal Holdings Limited (Continued)*

*Notes:*

1. These shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing.
2. 11,320,192 shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 10,595,042 shares were held by Strong Purpose, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 463,831,074 shares were held by the Company.
3. The interests of Mr. CHAN Shing and Ms. LAU Ting were duplicated.
4. These shares were owned by Mr. CHAN Shing.
5. 255,200 shares were owned by Focus Cheer, a company which is wholly-owned by Ms. TUNG Pui Shan, Virginia.

### **(2) Interests in Underlying Shares**

As at 30 June 2003, the interests of the Directors and chief executive of the Company in options for shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as disclosed in the previous section headed "Share Option Schemes" of this report.

Save as otherwise disclosed above, as at 30 June 2003, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2003, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

### Interests in Shares

Name of shareholder	Nature of interest	Number of shares held	Approximate percentage interest in the Company's issued share capital	Note
Hang Sing	Beneficiary	226,403,853	21.46%	1
Orient Strength	Corporate	226,403,853	21.46%	1
Zhong Shan Company Limited	Corporate	226,403,853	21.46%	1
Superior Quality Assets Limited	Corporate	226,403,853	21.46%	1
Strong Purpose	Beneficiary	211,900,848	20.08%	2
Bonaire International Limited	Trustee	79,644,000	7.55%	-

#### Notes:

- 51% of the issued share capital of Hang Sing was owned by Orient Strength, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting, and 49% of the issued share capital of Hang Sing was owned by Superior Quality Assets Limited, a company which is wholly-owned by Zhong Shan Company Limited. Zhong Shan Company Limited was wholly-owned by the Jiangsu Provincial People's Government of the PRC. These 226,403,853 shares held by Hang Sing formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting herein disclosed respectively.
- These 211,900,848 shares held by Strong Purpose, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting, formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting herein disclosed respectively.

Save as disclosed above, as at 30 June 2003, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.



## AUDIT COMMITTEE

The Audit Committee has been established since 1999 with its principal duties include the review and supervision of the Company's financial reporting process and internal controls. The current members of the Audit Committee are Mr. CUI Shu Ming and Mr. SONG Yufang, both are the Independent Non-Executive Directors of the Company. The unaudited interim accounts for the six months ended 30 June 2003 have been reviewed by the Audit Committee.

## CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange, except that the non-executive directors are not appointed for a specific term, as they have to retire by rotation at the Annual General Meeting of the Company when they are due for re-election pursuant to the Bye-laws of the Company.

On behalf of the Board  
**CHAN Shing**  
*Chairman*

Hong Kong, 25 September 2003