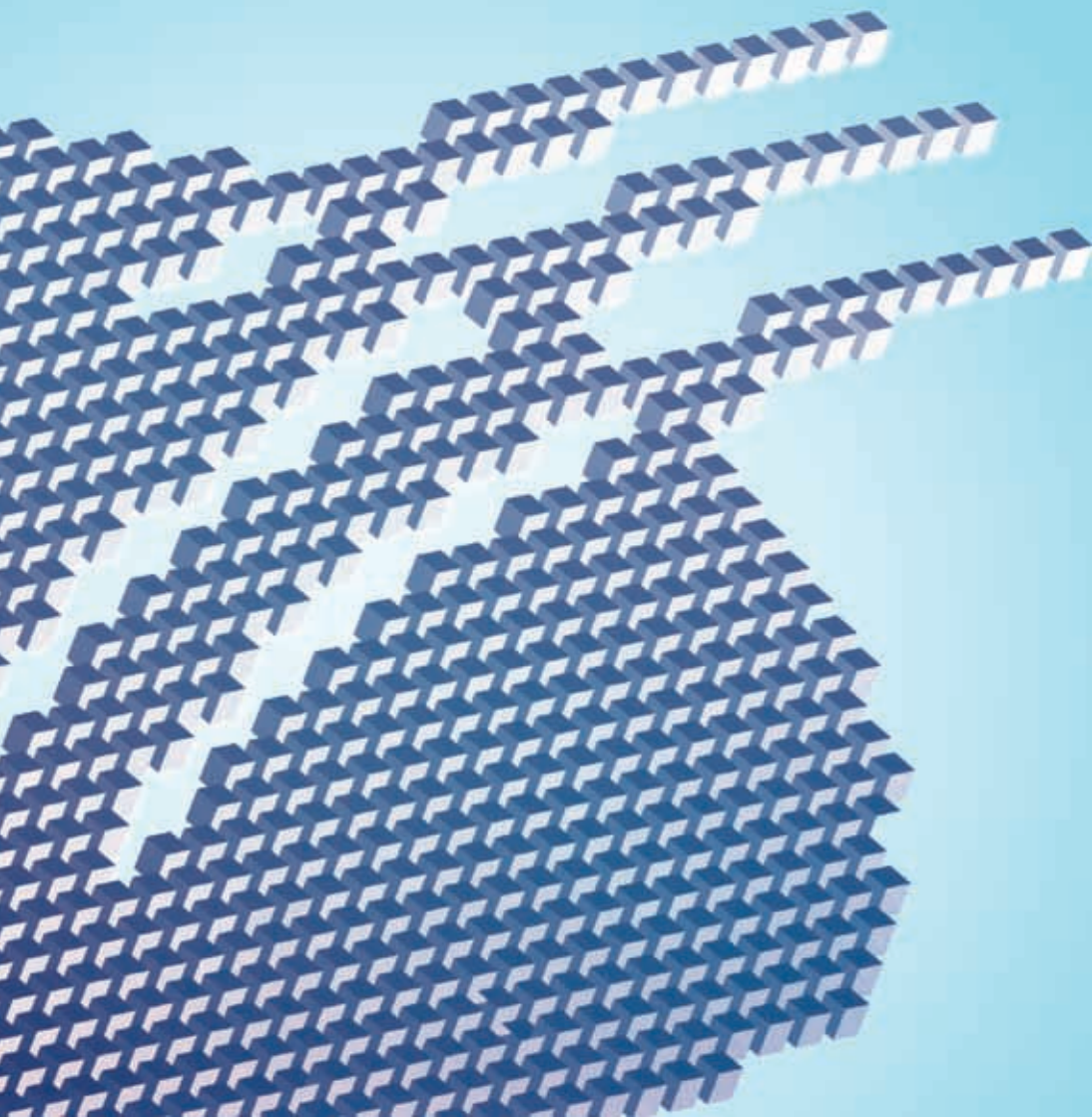




China Online (Bermuda) Limited

(Incorporated in Bermuda with limited liability)

INTERIM REPORT · 2 · 0 · 0 · 3 ·



UNAUDITED RESULTS OF THE GROUP

The Board of Directors (the “Directors”) of China Online (Bermuda) Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with the comparative figures for the corresponding period in 2002 as follows. The consolidated interim financial statements have not been audited, but have been reviewed by the Company’s auditors, Deloitte Touche Tohmatsu, in accordance with the Hong Kong Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” and by the Company’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2003	2002
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover	3	266,183	636,351
Cost of sales		(258,187)	(645,802)
Gross profit (loss)		7,996	(9,451)
Net gains (losses) on investments	4	10,758	(79,960)
Other operating income	5	11,590	5,078
Distribution costs		(3,598)	(7,234)
Administrative expenses		(18,158)	(26,533)
Other operating expenses		(2,030)	(25,195)
Profit (loss) from operations	6	6,558	(143,295)
Finance costs	7	(544)	(168)
Gain on disposal of subsidiaries	8	41,109	—
Gain on expiry of warrants	9	90,369	—
Impairment loss recognised in respect of goodwill		—	(2,250)
Share of results of associates		—	(4,169)
Share of result of a jointly controlled entity		(28)	(93)
Profit (loss) before taxation		137,464	(149,975)
Tax (charge) credit	10	(286)	256
Profit (loss) before minority interests		137,178	(149,719)
Minority interests		—	304
Profit (loss) for the period		137,178	(149,415)
Dividend	11	3,715	—
Earnings (loss) per share — Basic and diluted	12	36.93 HK cents	(40.22 HK cents)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2003

	Notes	30.6.2003 (unaudited) HK\$'000	31.12.2002 (audited) HK\$'000
Non-current assets			
Investment properties	13	32,610	32,610
Property, plant and equipment	13	12,977	14,194
Interests in associates		—	—
Interest in a jointly controlled entity		—	1,926
Investments in securities	14	297,821	284,306
Other non-current assets		652	745
		344,060	333,781
Current assets			
Inventories		3,921	10,315
Investments in securities	14	483,833	449,471
Debtors, deposits and prepayments	15	12,456	23,103
Loans receivable	16	21,250	5,000
Pledged bank deposits	19	—	7,567
Bank balances and cash		55,865	81,536
		577,325	576,992
Current liabilities			
Creditors and accrued charges	17	9,641	59,650
Customers' deposits and receipts in advance		2,294	47,030
Amount due to a jointly controlled entity		—	1,200
Taxation payable		4,354	4,127
		16,289	112,007
Net current assets			
		561,036	464,985
Capital and reserves			
Share capital	18	92,867	92,865
Reserves		812,229	705,901
		905,096	798,766

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	Share capital HK\$'000	Share premium HK\$'000	Negative goodwill HK\$'000	Goodwill HK\$'000	Warrant reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
At 1 January 2002	92,865	1,135,685	32,883	(1,237)	90,381	(169,118)	1,922	2,140	137,766	1,323,287
Revaluation increase of other investments not recognised in the condensed consolidated income statement	—	—	—	—	—	1,717	—	—	—	1,717
Loss for the period	—	—	—	—	—	—	—	—	(149,415)	(149,415)
At 30 June 2002	92,865	1,135,685	32,883	(1,237)	90,381	(167,401)	1,922	2,140	(11,649)	1,175,589
Revaluation decrease of other investments not recognised in the condensed consolidated income statement	—	—	—	—	—	(9,953)	—	—	—	(9,953)
Impairment loss recognised in respect of other investments	—	—	—	—	—	86,629	—	—	—	86,629
Loss for the period	—	—	—	—	—	—	—	—	(453,499)	(453,499)
At 31 December 2002	92,865	1,135,685	32,883	(1,237)	90,381	(90,725)	1,922	2,140	(465,148)	798,766
Revaluation increase of other investments	—	—	—	—	—	5,024	—	—	—	5,024
Exchange differences arising from translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	—	(2,015)	—	(2,015)
Net gains and losses not recognised in the condensed consolidated income statement	—	—	—	—	—	5,024	—	(2,015)	—	3,009
Release of revaluation reserve arising from the disposal of other investments	—	—	—	—	—	55,323	—	—	—	55,323
Share issued at premium as a result of exercise of warrants	2	87	—	—	(12)	—	—	—	—	77
Gain on expiry of warrants recognised in the condensed consolidated income statement	—	—	—	—	(90,369)	—	—	—	—	(90,369)
Realisation of translation reserve on disposal of subsidiaries	—	—	—	—	—	—	—	(125)	—	(125)
Release on disposal of subsidiaries	—	—	—	1,237	—	—	—	—	—	1,237
Profit for the period	—	—	—	—	—	—	—	—	137,178	137,178
At 30 June 2003	92,867	1,135,772	32,883	—	—	(30,378)	1,922	—	(327,970)	905,096

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	Six months ended 30.6.2003 (unaudited) HK\$'000	Six months ended 30.6.2002 (unaudited) HK\$'000
Net cash used in operating activities	(85,685)	(196,606)
Net cash from (used in) investing activities	59,937	(15,597)
Net cash from financing	77	51,373
Net decrease in cash and cash equivalents	(25,671)	(160,830)
Cash and cash equivalents at beginning of the period	81,536	214,503
Cash and cash equivalents at end of the period	55,865	53,673
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	55,865	54,833
Bank overdraft	—	(1,160)
	55,865	53,673

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES AND ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2002 except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) “Income taxes” issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision, if any, was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a 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.

The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two main operating divisions — mobile phone distribution, and securities trading and investments. These divisions are the basis on which the Group reports its primary segment information.

The revenue and attributable profit (loss) from operations of the Group for the period, analysed by business segments and geographical segments, are as follows:—

By business segments:—

For the six months ended 30 June 2003

	Mobile phone distribution <i>HK\$'000</i>	Securities trading and investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	39,001	226,148	1,034	266,183
Others	76	2,706	2,501	5,283
	<u>39,077</u>	<u>228,854</u>	<u>3,535</u>	<u>271,466</u>
Segment result	<u>(1,939)</u>	<u>15,872</u>	<u>535</u>	<u>14,468</u>
Unallocated other operating income				6,307
Unallocated corporate expenses				<u>(14,217)</u>
Profit from operations				<u>6,558</u>

For the six months ended 30 June 2002

	Mobile phone distribution <i>HK\$'000</i>	Securities trading and investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	124,106	505,945	6,300	636,351
Others	747	—	3,247	3,994
	<u>124,853</u>	<u>505,945</u>	<u>9,547</u>	<u>640,345</u>
Segment result	<u>(24,593)</u>	<u>(101,537)</u>	<u>(1,685)</u>	<u>(127,815)</u>
Unallocated other operating income				1,084
Unallocated corporate expenses				<u>(16,564)</u>
Loss from operations				<u>(143,295)</u>

3. SEGMENT INFORMATION (continued)

By geographical segments:—

The Group's operations are located in Hong Kong and the Mainland China ("China").

The Group's distribution of mobile phones are carried out in Hong Kong and China. Securities trading and investments are carried out in Hong Kong.

The following table provides an analysis of the Group's revenue and profit (loss) from operations by geographical market:—

	Revenue by geographical market		Profit (loss) from operations	
	Six months ended 30 June 2003	2002	Six months ended 30 June 2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	269,791	578,946	8,932	(122,987)
China	1,675	61,399	(2,374)	(20,308)
	271,466	640,345	6,558	(143,295)

Note: During the six months period ended 30 June 2003, the Group discontinued its distribution of mobile phones in China.

4. NET GAINS (LOSSES) ON INVESTMENTS

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net realised (loss) gain on derivatives	(18,511)	14,117
Net unrealised gain (loss) on trading investments	26,430	(76,424)
Net unrealised gain (loss) on derivatives	2,839	(25,744)
Gain on realisation of listed other investments	—	8,091
	10,758	(79,960)

5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Compensation from litigation (<i>Note</i>)	4,811	—
Gross rental income from investment properties	2,502	3,132
Interest income	4,077	1,145
Others	200	801
	11,590	5,078

Note: Litigation was made against ex-employees for damages in relation to their improper behaviour. The case was settled and compensation of HK\$4,811,000 was received during the period.

6. PROFIT (LOSS) FROM OPERATIONS

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:—		
Depreciation and amortisation	874	1,808
Loss on disposal of property, plant and equipment	402	3,847

7. FINANCE COSTS

The finance costs represent interest on bank and other borrowings wholly repayable within five years.

8. GAIN ON DISPOSAL OF SUBSIDIARIES

In March 2003, Fulltime Profits Limited, an indirect wholly owned subsidiary of the Company, and its subsidiaries ("Fulltime Group") were disposed of at a nominal consideration of HK\$1 to a third party, resulting a gain on disposal of subsidiaries of HK\$41,109,000. Fulltime Group did not make a significant contribution to the net cash flows or the results of the Group for the six months ended 30 June 2003.

9. GAIN ON EXPIRY OF WARRANTS

As at 1 January 2003, the Company had 1,856,666,248 warrants outstanding and entitling the holders to subscribe for new shares at HK\$0.30 per share, subject to adjustment, at any time from 7 June 2000 up to and including 6 June 2003. During the period, 256,507 warrants were exercised and the remaining 1,856,409,741 warrants expired and lapsed on 6 June 2003. Accordingly, the warrant reserve of HK\$90,369,000 was released to the income statement.

10. TAX (CHARGE) CREDIT

	Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
The (charge) credit comprises:—		
Hong Kong Profits Tax	(172)	—
Income Tax in China	(114)	—
Share of tax credit of associates	—	256
	(286)	256

Hong Kong Profits Tax was calculated at 17.5% on the estimated assessable profit for the current period.

Income tax in China has been provided at the prevailing rates applicable in China on the estimated profit.

In prior period, no provision for Hong Kong Profits Tax has been made in the condensed financial statements as the Group had no assessable profit for prior period.

11. DIVIDEND

On 19 September 2003, following the Capital Reorganisation as mentioned herein below under Section "Prospects" of this report, the directors declared the payment of an interim dividend of HK\$0.01 per share (2002: nil) amounting to HK\$3,715,000 to shareholders whose names appear on the Register of Members of the Company on 22 October 2003.

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit for the period of HK\$137,178,000 (2002: loss of HK\$149,415,000) and on weighted average of 371,464,499 (2002: 371,458,494) ordinary shares in issue during the period. Earnings (loss) per share for both periods have been adjusted for the share consolidation on 15 July 2003, details of which are set out in note 20.

The computation of diluted earnings (loss) per share has not assumed the exercise of the Company's outstanding warrants as their exercise prices were higher than the average market price for shares for both periods.

13. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors consider that the fair values of the investment properties and leasehold land and buildings at 30 June 2003 are not materially different from the professional valuation made at 31 December 2002 and, accordingly, no revaluation increase or decrease has been recognised in the current period.

14. INVESTMENTS IN SECURITIES

	Trading investments		Other investments		Total	
	30.6.2003 HK\$'000	31.12.2002 HK\$'000	30.6.2003 HK\$'000	31.12.2002 HK\$'000	30.6.2003 HK\$'000	31.12.2002 HK\$'000
Equity securities:						
— listed in Hong Kong	367,220	333,179	68,920	295,991	436,140	629,170
— listed overseas	—	—	25,286	—	25,286	—
— unlisted	107,446	104,607	—	—	107,446	104,607
	474,666	437,786	94,206	295,991	568,872	733,777
Debt securities:						
— unlisted (Note)	—	—	212,782	—	212,782	—
Total	474,666	437,786	306,988	295,991	781,654	733,777
Market value of listed securities	367,220	333,179	94,206	295,991	461,426	629,170
Carrying amount analysed for reporting purposes as:						
— Non-current	—	—	297,821	284,306	297,821	284,306
— Current	474,666	437,786	9,167	11,685	483,833	449,471
	474,666	437,786	306,988	295,991	781,654	733,777

Note: The debt securities represent the loan notes issued by Sun Hung Kai & Co. Limited ("SHK") which formed part of the consideration for the sale of SHK's Shares by the Group during the period. The loan notes bear interest at 4% per annum and are redeemable by SHK on or before 7 March 2008.

15. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30 to 90 days to its trade debtors. An aged analysis of trade debtors is as follows:—

	30.6.2003 HK\$'000	31.12.2002 HK\$'000
Within 90 days	5,373	10,454
91 — 180 days	—	3,352
181 — 360 days	5	—
Over 360 days	3	—
	5,381	13,806
Other debtors, deposits and prepayments	7,075	6,849
Net premium paid for derivatives	—	2,448
	12,456	23,103

16. LOANS RECEIVABLE

The amounts are unsecured. Included in loans receivable is an amount of HK\$18,750,000 (31.12.2002: nil) which bears interest at prime rate plus 5% per annum and is repayable on 31 December 2003. The remaining balance of HK\$2,500,000 (31.12.2002: HK\$5,000,000) bears interest at 15% per annum and is repayable on 26 November 2003.

17. CREDITORS AND ACCRUED CHARGES

An aged analysis of trade creditors is as follows:—

	30.6.2003 HK\$'000	31.12.2002 HK\$'000
Within 90 days	3,243	4,057
91 — 180 days	—	377
181 — 360 days	—	117
Over 360 days	—	8,541
	3,243	13,092
Other creditors and accrued charges	6,398	46,558
	9,641	59,650

18. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:—		
At 30 June 2003 and 31 December 2002	30,000,000,000	300,000
Issued and fully paid:—		
At 1 January 2003	9,286,462,340	92,865
Warrants exercised (<i>Note</i>)	256,507	2
At 30 June 2003	9,286,718,847	92,867

Note: During the six months ended 30 June 2003, warrants were exercised to subscribe for 256,507 ordinary shares of the Company at an exercise price of HK\$0.30 per share.

19. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to banks to secure banking facilities:—

	30.6.2003 HK\$'000	31.12.2002 HK\$'000
Investment properties	12,000	—
Marketable securities	167,952	164,554
Bank deposits	—	7,567
	179,952	172,121

20. POST BALANCE SHEET EVENTS

Pursuant to resolutions proposed by the Directors and passed at a special general meeting of the Company held on 14 July 2003 (the “SGM”):—

- (a) (i) the issued share capital of the Company was reduced by cancelling paid-up capital of HK\$0.0096 on each share of nominal value of HK\$0.01 in the issued share capital of the Company as at the date of passing of this resolution so that each share shall be treated as one fully paid-up share of nominal value of HK\$0.0004 in the issued share capital of the Company; and
- (ii) the value of each of the authorised but unissued shares was reduced from HK\$0.01 to HK\$0.0004 each so that the authorised share capital of the Company was reduced from HK\$300,000,000 to HK\$12,000,000 (the “Capital Reduction”);
- (b) an amount of HK\$375,995,500 standing to the credit in the share premium account of the Company as at 31 December 2002 was reduced (the “Share Premium Reduction”) and together with the credit amount of HK\$89,152,500 arising from the Capital Reduction were applied to eliminate or reduce the accumulated losses of the Company with accumulated balance of approximately HK\$465,890,000 as at 31 December 2002 in accordance with the Bye-laws of the Company and the applicable laws of Bermuda;
- (c) every 25 issued shares was consolidated (the “Share Consolidation”) into one new share of nominal value of HK\$0.01 each (the “New Shares”); and
- (d) the authorised share capital of the Company was increased from HK\$12,000,000 to HK\$300,000,000 by the creation of an additional 28,800,000,000 unissued new shares of nominal value of HK\$0.01 each in the capital of the Company following completion of the Capital Reduction and Share Consolidation (the “Increase of Authorised Share Capital”) (altogether the “Capital Reorganisation”).

Completion of the Capital Reorganisation is conditional of the following conditions being fulfilled:—

- (a) the passing by the shareholders of the Company at the SGM of ordinary resolutions to approve the Share Consolidation and Increase of Authorised Share Capital and special resolutions to approve the Capital Reduction and Share Premium Reduction;
- (b) the compliance with section 46 of the Companies Act; and
- (c) the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval for the listing of, and permission to deal in, the New Shares.

The Capital Reorganisation became effective on 15 July 2003.

INTERIM DIVIDEND

The Directors declared the payment of an interim dividend of HK\$0.01 per share (2002: nil) amounting to HK\$3,715,000 to shareholders whose names appear on the Register of Members of the Company on 22 October 2003. Dividend warrants are expected to be despatched on 5 November 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Turnover of the Group for the six months ended 30 June 2003 was HK\$266,183,000 representing a 58.2% decrease as compared with the corresponding period in the year 2002. Net profit for the period was HK\$137,178,000 versus a net loss of HK\$149,415,000 recorded in the corresponding period in the year 2002. Earnings per share for the period was HK\$0.37 versus a loss per share of HK\$0.40 recorded in the respective period in the year 2002, having both periods being adjusted for the subsequent Capital Reorganisation as mentioned herein below under Section "Prospects".

REVIEW OF OPERATIONS

During the period under review, the deterioration of the already fragile consumer market due to the outbreak of SARS has adversely affected the Group's mobile handset distribution business in Hong Kong resulting in a 44.7% drop in turnover to HK\$39 million as compared with that of the year 2002. The Group has concluded distribution rights of several trendy mobile handset products with its suppliers and has completed the cost reduction and restructuring program embarked since the second half of the year 2002.

The Group's mobile phone distribution and intelligent building operations in the People's Republic of China ("PRC", "PRC Operations") had been operating at losses for consecutive years. Since the outlook of such operations were so gloomy that the Group has decided to dispose of the PRC Operations. Such disposal was completed in March 2003 resulting in a gain of about HK\$41.1 million.

REVIEW OF OPERATIONS *(continued)*

Of the Group's trading and investment in financial instruments, a turnover of HK\$226 million was recorded for the first six-month of the year 2003 representing a 55.3% decrease as compared with the corresponding period in the year 2002. With the recent rally in the local stock market starting from the second quarter of 2003, performance of the Group's investment portfolio has been satisfactory.

The Group has completed the partial realisation of its long term investment in Sun Hung Kai & Co. Limited ("SHK") in March 2003 which generated cash proceeds of HK\$63.8 million and loan note of HK\$212.8 million, redeemable on or before 7 March 2008 and carrying an interest of 4% per annum. Such realisation has reduced the Group shareholding in SHK from 17.9% to 4.6%.

On 7 March 2003, the Group made a voluntary conditional offer to acquire all the issued shares of Fortuna International Holdings Limited ("Fortuna", "Fortuna Share(s)") other than those already held by the Group and its concert parties at HK\$0.02 per Fortuna Share (the "Fortuna Offer") valuing the entire issued share capital of Fortuna at HK\$79.87 million. The Fortuna Offer represents an opportunity for the Group to widen its business scope and to participate in production and distribution of wines in the PRC. As Fortuna Shares tendered for acceptance under the Fortuna Offer together with Fortuna Shares already held by the Group and its concert parties were less than 50 per cent of the voting rights of Fortuna, the Fortuna Offer has not become unconditional as to acceptance and was lapsed on 26 May 2003.

Pursuant to the ordinary resolution passed at the special general meeting of the Company held on 15 May 2000, an open offer of warrants on the basis of one warrant for every five existing shares then held was approved. A total of 1,856,688,098 warrants ("Warrants") were issued at HK\$0.05 per Warrant on 15 May 2000 entitling the holder to subscribe in cash at a price of HK\$0.30 per share in the Company, subject to adjustment, at any time from 7 June 2000 up to 6 June 2003 (both days inclusive). As at 1 January 2003, there were 1,856,666,248 Warrants outstanding. During the period under review, a total of 256,507 Warrants were exercised with the remaining 1,856,409,741 Warrants expired and lapsed as of 6 June 2003. Such expiry triggered the realisation of the warrant reserve which resulted in a gain on expiry of Warrants of HK\$90.4 million.

LIQUIDITY AND FINANCING

As at 30 June 2003, the Group's non-current assets comprised mainly of investment properties of HK\$33 million, property, plant and equipment of HK\$13 million and long term investments of HK\$298 million. These non-current assets were principally financed by shareholders' funds. As at 30 June 2003, the Group has net current assets of HK\$561 million.

All of the Group's borrowings are arranged on short-term basis and repayable within 1 year. As at 30 June 2003 and 31 December 2002, no borrowing was recorded.

As at 30 June 2003, the Group continued to maintain an insignificant gearing ratio, calculated on the basis of the Group's net borrowing (after deducting cash and bank balances) over shareholders' funds.

The Group has little foreign exchange exposure and the majority of the borrowings were denominated in Hong Kong Dollars.

CHARGE ON GROUP ASSETS

As at 30 June 2003, investment securities and investment properties with carrying values of HK\$167,952,000 and HK\$12,000,000 respectively (31 December 2002: investment securities and bank deposits with carrying values of HK\$164,554,000 and HK\$7,567,000 respectively) were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES

The Group, including its subsidiaries but excluding associates, employed 43 employees as at 30 June 2003 (31 December 2002: 96). The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

PROSPECTS

On 29 May 2003, the Group proposed i) a reduction in the nominal value of the then existing issued share capital of the Company from HK\$0.01 to HK\$0.0004 each by cancellation of HK\$0.0096 paid up capital for each issued share and the reduction in the nominal value of each authorised but unissued share from HK\$0.01 to HK\$0.0004 each (the “Capital Reduction”), ii) a reduction of an amount of HK\$375,995,500 standing to the credit of the share premium account of the Company as at 31 December 2002 and the application of such credit together with the credit arising from the Capital Reduction to set off against the accumulated losses of the Company as at 31 December 2002, iii) the consolidation of every 25 reduced shares into one new share of HK\$0.01 each (the “Share Consolidation”) and iv) the increase in the authorised share capital of the Company from HK\$12,000,000 to HK\$300,000,000 by the creation of 28,800,000,000 new shares following the completion of the Capital Reduction and the Share Consolidation (collectively the “Capital Reorganisation”). The Capital Reorganisation was approved by shareholders of the Company at the special general meeting of the Company held on 14 July 2003 and the whole exercise was completed on 25 August 2003.

Despite the recent rally in the stock markets in Hong Kong and around the region, the Group is still uncertain whether the recovery is sustainable. After a series of cost reduction, restructuring and rationalisation of operations and investment portfolio, and the Capital Reorganisation, the Group has equipped itself with a rationalised operation and cost structure to meet the challenges from its operating environment. The Group maintains a healthy financial position and will continue to seek investment opportunities with good cash flow, earnings and capital appreciation potential.

INTERESTS OF DIRECTORS

As at 30 June 2003, the interests and short positions of the directors 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, Hong Kong (the “SFO”)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) were as follows:—

Interests in the shares of the Company

Name of director	Number of ordinary shares				Total	Percentage of issued ordinary shares
	Personal interests	Family interests	Corporate interests	Other interests		
Ms. Chong Sok Un (“Ms. Chong”)	—	—	2,631,200,000 (Note #)	—	2,631,200,000	28.33%

Note #: Ms. Chong is deemed to have a corporate interest in 2,631,200,000 ordinary shares of the Company which are held by Vigor Online Offshore Limited (“Vigor Online”), a 67.7% owned subsidiary of China Spirit Limited (“China Spirit”) in which Ms. Chong maintains a beneficial interest of 100%.

All the interests disclosed above represent long position in the shares of the Company.

Save as disclosed above:—

- (i) as at 30 June 2003, none of the directors or the chief executive of the Company had any interests or short positions in any shares, underlying shares or 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 under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; and
- (ii) at no time during the period was the Company or its fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares, underlying shares or debentures in the Company or any other body corporate.

INTERESTS OF DIRECTORS *(continued)*

Subsequent to the period end date, the corporate interest in shares of the Company held by Ms. Chong was reduced to 105,248,000 shares, representing 28.33% of the existing issued share capital of the Company, as a consequence of the Share Consolidation (as defined in the “Prospect” section) effective on 15 July 2003.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following parties 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:—

Interests in the shares of the Company

Name of shareholder <i>(Note)</i>	Number of shares held	Percentage of interest
Ms. Chong	2,631,200,000	28.33%
China Spirit	2,631,200,000	28.33%
Vigor Online	2,631,200,000	28.33%

Note: Vigor Online is a 67.7% owned subsidiary of China Spirit in which Ms. Chong maintains a beneficial interest of 100%. Accordingly, China Spirit and Ms. Chong were deemed by SFO to be interested in 2,631,200,000 shares of the Company.

Save as disclosed above, as at 30 June 2003, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Subsequent to the period end date, the interest in shares of the Company held by Vigor Online and the deemed interest in shares of the Company held by China Spirit and Ms. Chong were reduced to 105,248,000 shares, representing 28.33% of the existing issued share capital of the Company, as a consequence of the Share Consolidation (as defined in the “Prospect” section) effective on 15 July 2003.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the period.

CODE OF BEST PRACTICE

The Company had complied throughout the six months ended 30 June 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Chong Sok Un
Chairman

Hong Kong, 19 September 2003