KIN YAT HOLDINGS LIMITED

建 溢 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

2003 Interim Report

The Board of Directors of Kin Yat Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2003 together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited Six months ended 30 September 2003 HK$'000	2002 HK$'000
TURNOVER	2	**395,468**	444,916
Cost of sales		**(308,481)**	(351,416)
Gross profit		**86,987**	93,500
Other revenue		**4,343**	5,604
Selling and distribution expenses		**(11,295)**	(12,337)
Administrative expenses		**(34,253)**	(33,379)
PROFIT FROM OPERATING ACTIVITIES	3	**45,782**	53,388
Finance costs		**(132)**	(106)
PROFIT AFTER FINANCE COSTS		**45,650**	53,282
Share of profits less losses of associates		**3,548**	(1,790)
PROFIT BEFORE TAX		**49,198**	51,492
Tax	4	**(3,767)**	(4,124)
PROFIT BEFORE MINORITY INTERESTS		**45,431**	47,368
Minority interests		**(3,026)**	(2,829)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**42,405**	44,539
DIVIDENDS	5	**8,096**	10,121
EARNINGS PER SHARE	6		
Basic		**HK10.48 cents**	HK11.34 cents
Diluted		**HK10.44 cents**	HK11.30 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 September 2003 HK$'000	Audited 31 March 2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets		**328,719**	303,058
Goodwill		**8,139**	9,302
Interests in associates		**19,068**	15,194
Deferred development costs		**8,650**	7,872
		364,576	335,426
CURRENT ASSETS			
Inventories		**146,674**	142,557
Accounts receivable	*7*	**142,972**	70,451
Prepayments, deposits and other receivables		**14,223**	15,870
Short term investments		**1,255**	1,550
Time deposits		**29,149**	59,307
Cash and bank balances		**45,299**	26,106
		379,572	315,841
CURRENT LIABILITIES			
Accounts and bills payable, accrued liabilities and other payables	*8*	**168,857**	95,867
Interest-bearing bank borrowings	*10*	**439**	5,963
Tax payable		**13,653**	12,028
Proposed interim dividend		**8,096**	–
		191,045	113,858
NET CURRENT ASSETS		**188,527**	201,983
TOTAL ASSETS LESS CURRENT LIABILITIES		**553,103**	537,409

	Notes	**Unaudited 30 September 2003** ***HK$'000***	Audited 31 March 2003 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**553,103**	537,409
NON-CURRENT LIABILITY			
Deferred tax		**7,737**	7,737
MINORITY INTERESTS		**11,966**	10,340
		533,400	519,332
CAPITAL AND RESERVES			
Share capital	9	**40,482**	40,482
Reserves		**492,918**	458,609
Proposed final dividend		**–**	20,241
		533,400	519,332

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2003 (Unaudited)

	Share capital HK$'000	Reserves: Share premium HK$'000	Asset revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total reserves HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2003	40,482	104,441	45,938	1,599	6,150	300,481	458,609	20,241	519,332
2002/2003 final dividend declared	–	–	–	–	–	–	–	(20,241)	(20,241)
Net profit for the period	–	–	–	–	–	42,405	42,405	–	42,405
Interim dividend	–	–	–	–	–	(8,096)	(8,096)	–	(8,096)
At 30 September 2003	40,482	104,441	45,938	1,599	6,150	334,790	492,918	–	533,400

For the six months ended 30 September 2002 (Unaudited)

	Share capital HK$'000	Reserves: Share premium HK$'000	Asset revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total reserves HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2002	37,912	88,330	53,879	1,599	6,150	259,400	409,358	27,798	475,068
2001/2002 final dividend declared	–	–	–	–	–	–	–	(27,798)	(27,798)
Issue of shares	2,570	16,111	–	–	–	–	16,111	–	18,681
Acquisition of additional interest in a subsidiary	–	–	863	–	–	-	863	–	863
Net profit for the period	–	–	–	–	–	44,539	44,539	–	44,539
Interim dividend	–	–	–	–	–	(10,121)	(10,121)	–	(10,121)
At 30 September 2002	40,482	104,441	54,742	1,599	6,150	293,818	460,750	–	501,232

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 September	
	2003	2002
	HK$'000	*HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	**40,306**	2,900
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(45,747)**	(61,330)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**–**	18,581
DECREASE IN CASH AND CASH EQUIVALENTS	**(5,441)**	(39,849)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**79,450**	140,031
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**74,009**	100,182
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**45,299**	59,785
Time deposits with original maturity of less than three months when acquired	**29,149**	40,397
Bank overdrafts, unsecured	**(439)**	–
	74,009	100,182

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 March 2003.

In addition, the Group has adopted SSAP 12 (Revised) "Income Taxes". SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior periods, 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 be 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 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 absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The retrospective adoption of this new standard has not resulted in any significant effect on the financial statements in the prior periods, and, accordingly no prior period adjustment has been made.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts but excluding intra-Group transactions.

(a) Business segments

The following table presents revenue and results for the Group's business segments.

	Unaudited six months ended 30 September									
	Toys and related products		Motors		Electrical household appliances		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:										
Sales to external customers	247,985	307,124	115,651	115,811	31,832	21,981	–	–	395,468	444,916
Inter-segment sales	–	–	8,529	9,801	–	–	(8,529)	(9,801)	–	–
Other revenue	1,667	1,278	1,145	883	–	16	–	–	2,812	2,177
Total	249,652	308,402	125,325	126,495	31,832	21,997	(8,529)	(9,801)	398,280	447,093
Segment results	16,734	25,148	31,138	30,715	662	472	–	–	48,534	56,335
Interest, dividend income and unallocated gains									1,531	3,427
Unallocated expenses									(4,283)	(6,374)
Profit from operating activities									45,782	53,388

(b) Geographical segments

The following table presents the Group's geographical segment revenue.

	Unaudited six months ended 30 September											
	United States of America		Europe		Asia		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:												
Sales to external customers	128,591	198,326	95,946	82,944	129,335	128,103	41,596	35,543	–	–	395,468	444,916

3. PROFIT FROM OPERATING ACTIVITIES

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

	Unaudited Six months ended 30 September	
	2003	2002
	HK$'000	*HK$'000*
Depreciation	**17,124**	14,854
Amortisation of deferred development costs	**3,194**	2,662
Amortisation of goodwill	**1,163**	1,161
Interest income	**(232)**	(864)

4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the applicable rates of tax prevailing in the countries in which the subsidiaries operated during the period.

	Unaudited Six months ended 30 September	
	2003	2002
	HK$'000	*HK$'000*
Current period provision:		
Hong Kong	**3,452**	3,839
Overseas	**252**	233
	3,704	4,072
Share of tax attributable to associates	**63**	52
Tax charge for the period	**3,767**	4,124

No deferred tax has been provided as there were no significant timing differences at the balance sheet date (2002: Nil).

5. DIVIDENDS

The directors have decided to pay an interim dividend of HK2 cents per share to the shareholders whose name appear on the register of members of the Company on 9 January 2004. The dividend will be paid on 15 January 2004.

	Unaudited Six months ended 30 September	
	2003	2002
	HK$'000	*HK$'000*
Interim – HK2 cents (2002: HK2.5 cents) per ordinary share	**8,096**	10,121

6. 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$42,405,000 (2002: HK$44,539,000) and the weighted average of 404,820,000 (2002: 392,599,235) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the net profit from ordinary activities attributable to shareholders for the period of HK$42,405,000 (2002: HK$44,539,000) and 406,226,601 (2002: 394,103,909) ordinary shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of dilutive potential ordinary shares outstanding during the period.

6. EARNINGS PER SHARE (cont'd)

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

	Unaudited Six months ended 30 September 2003	2002
Weighted average number of ordinary shares used in calculating basic earnings per share	**404,820,000**	392,599,235
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the period	**1,406,601**	1,504,674
Weighted average number of ordinary shares used in calculating diluted earnings per share	**406,226,601**	394,103,909

7. ACCOUNTS RECEIVABLE

Trading terms with customers are largely on credit, except for new customers where cash on sale or payment by letter of credit is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, for whom the credit terms are extended to 90 days. The ageing of the Group's accounts receivable as at 30 September 2003 is analysed as follows:

	Unaudited 30 September 2003 *HK$'000*	Audited 31 March 2003 *HK$'000*
0 – 30 days	**82,501**	29,548
31 – 60 days	**42,585**	11,829
61 – 90 days	**12,383**	5,854
Over 90 days	**5,503**	23,220
Total	**142,972**	70,451

The substantial increase in the accounts receivables is owing to the seasonal factor where September (30 September 2002: HK$169,872,000) is the high season and March (31 March 2002: HK$52,491,000) is the low season. The Group considered such balances are normal and healthy.

8. ACCOUNTS AND BILLS PAYABLE, ACCRUED LIABILITIES AND OTHER PAYABLES

The ageing of the Group's accounts and bills payable as at 30 September 2003 is analysed as follows:

	Unaudited 30 September 2003 *HK$'000*	Audited 31 March 2003 *HK$'000*
0 – 30 days	**54,416**	28,226
31 – 60 days	**41,197**	11,438
61 – 90 days	**24,962**	5,962
Over 90 days	**16,244**	20,537
Accounts and bills payable	**136,819**	66,163
Accrued liabilities and other payables	**32,038**	29,704
Total	**168,857**	95,867

9. SHARE CAPITAL

	Unaudited Ordinary shares of HK$0.10 each	
	Number of shares	*HK$'000*
Authorised:		
At 1 April 2003 and 30 September 2003	1,000,000,000	100,000
Issued and fully paid:		
At 1 April 2003 and 30 September 2003	404,820,000	40,482

10. INTEREST-BEARING BANK BORROWINGS

The Group's banking facilities as at 30 September 2003 are supported by corporate guarantees given by the Company and certain subsidiaries of the Company.

11. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK$127,000,000 (31 March 2003: HK$127,000,000) and HK$15,000,000 (31 March 2003: HK$15,000,000) in respect of banking facilities granted to certain subsidiaries and an associate, of which HK$439,000 (31 March 2003: HK$5,963,000) and HK$7,111,000 (31 March 2003: HK$12,500,000) had been utilised as at the balance sheet date, respectively.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 6 January 2004 to Friday, 9 January 2004 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the interim dividend, all transfers of shares of the Company, accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 5 January 2004.

RESULTS

The overall market environment for the Group's core business continued to be beleaguered with tenuous consumer confidence worldwide, reduced buying activities from retailers and cutthroat price competition. Although there are signs of a pick-up in consumption interest, the positive impact is yet to be felt at the supplier's level and this continues to underline the weakness of the Group's performance.

The Group's priority is to sustain and enhance competitive strengths in a challenging environment by improving its fundamentals in production efficiency, pricing strategy and the development of niche products for the world's core toy markets.

During the first half of the financial year, the Group's overall turnover fell 11.1% to approximately HK$395,468,000, from HK$444,916,000 for the same period last year. Net profit from ordinary activities attributable to shareholders dropped 4.8% to approximately HK$42,405,000 from HK$44,539,000 in the previous corresponding period.

In the first half, the toys and motors divisions contributed 62.7% and 29.3% respectively in revenues to the Group. The management succeeded as promised in sustaining the gross margin of the toys division despite fierce price competition and a depressed market environment. This fully reflects the effectiveness of the Group's efforts to differentiate itself from its competitors with value-adding electronic functionalities and also dedication to keep overheads down. It is the management's intention to continue its business diversification initiative that was started in 2000 with the aim of strengthening the Group's revenue generating power.

The Group is very encouraged by the performance of our CDR manufacturing arm, which reported its maiden profit since operation. With a cost-efficient production base in China, this division is now in a much more competitive position to develop new clients and businesses. The success of the CDR division has further reinforced the management's belief in pursuing a balanced spread of industrial operations to sustain long-term growth and profitability.

REVIEW OF OPERATION

Toys

Buyers and retailers continued to adopt a very conservative and cautious stance, as they were still very wary of any negative impact on the fragile market from looming terrorist threats. As a result, market activities were subdued and quiet during the six-month period. The very strained situation in Iraq towards the end of last year and early this year – usually the critical order placement time – had pulled buyers back from committing to any new projects, and the consequences of which were reflected in the very sluggish manufacturing activities in the second and third quarters of 2003.

Meanwhile, Hong Kong and certain parts of China were ravaged by the outbreak of the Severe Acute Respiratory Syndrome ("SARS") from March to June this year. Many overseas buyers cancelled or postponed their procurement trips, thus slowing down business activities and further complicating the process of making and closing deals.

Such environmental factors were entirely out of anticipation and their repercussion on the market sentiment was phenomenal. Any lingering expectation of a gradual recovery from the September 11 incident was shattered while the market continued to search for niche demands for a breakthrough.

Our customers chose to minimize their risk exposure through active product diversification to appeal to a broader spectrum of consumers. Such strategy – more variety, lower volume for each model – diminished economy of scale and put a tight squeeze on our profit margin. In response to growing price-consciousness among consumers, retailers continued to target their merchandising effort on mid-to-low-priced items and transfer significant pressure on the manufacturers. To aggravate the matter, price competition within the industry was also mounting high.

The division was able to maintain its gross margin even though there was a 19.3% drop in turnover to HK$247,985,000 during the six-month period. This achievement was largely attributable to the Group's ongoing efforts to differentiate itself from its competitors with the introduction of innovative and value-added products of specialized technologies. The management's dedicated efforts to sustain capital expenditure, reduce costs and optimize deployment of resources at such difficult times also contributed to maintaining a positive profit margin.

With the continued volatile situation in Iraq, cautious buying decisions from customers, and increasingly keen competition in the industry, the outlook for the second half of the financial year remains challenging. The management will persist in its efforts to seek performance improvement by focusing its resources on enhancing productivity and identifying viable opportunities in both product and customer development.

Motors

The Group's motors division continued to derive the majority of its business from the toys sector. All the contributing environmental and industry factors to the restrained performance of the toys division during the six-month period also had a bearing on the motors division. Nevertheless, this division was able to sustain its turnover to approximately the same level of HK$124,180,000 compared with the corresponding period of the previous year.

The Group was able to achieve a higher margin from a change of product mix to more high value-adding items during the six-month period. Though a large part of this increase was offset by rising steel prices, the Group recorded a 1.4% growth in segment result from the same period last year.

During the period under review, the Group continued its attempts to expand motor-powered applications to product categories other than toys, including personal care devices. Although these strategic initiatives to enhance product mix might have dampened the division's profit margin in the short term, the Group believes that the experience gained would be invaluable and instrumental to sharpening the management's focus to explore, evaluate and identify niche motor-powered product and market segments of tremendous potential in the longer term.

The division's high-quality manufacturing prowess and competitive pricing are well recognized by our customers, and we believe our positive attributes will help draw more customers who are particularly cost conscious in adverse economic situations.

The second half of the financial year will be a period of balanced development. While efforts to expand the range of motor-powered devices will continue, the management will be more vigilant in market monitoring and evaluation for new launches in a difficult environment.

CDRs

The Group's 50%-owned CDR manufacturing arm performed satisfactorily and recorded profit for the first time. Its six production lines had been in commercial operation during the entire six-month period. The relocation to China last year was proven to be a strategic move of substantial benefits to lower manufacturing and overhead costs, and to strengthen the division's competitiveness in business and customer acquisition.

OVERALL OUTLOOK

Global consumption for toy products and other motor-powered devices lacks growth momentum as the market is still reeling in the apprehension of potential terrorist attacks that might once again devastate the economy worldwide, and more specifically hit the retail sector hard. This cautious sentiment is unlikely to disperse in the short term. In addition, the continued instability in the Gulf area is always a concern, as any oil price hike would increase the cost of plastic, one of our major raw materials, and impede our profitability. The overall outlook is further clouded by the sharp increases in metal prices, a trend which is likely to prevail for some time until the overheated demands begin to level out.

Nevertheless, we continue to harbour cautious optimism as to the prospect of our future growth potential and are actively preparing ourselves to capitalise on emerging opportunities of synergistic value. While the external environment is filled with uncertainties, the management seizes the window opportunity to turn its focus internally to spruce up the company's operating mechanism and business infrastructure with a more refined strategic direction to build market share and improve profit-making capabilities.

LIQUIDITY AND FINANCIAL POSITION

The Group primarily used its internally generated cash flow and banking facilities to finance its operations and business development during the period. The Group adopts a prudent and conservative policy in its financial management. At the end of the financial period, the Group's aggregated time deposits and cash and bank balances amounted to HK$74 million (31 March 2003: HK$85 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK$128 million (31 March 2003: HK$128 million) with various banks, of which HK$0.4 million (31 March 2003: HK$6 million) has been utilized as at 30 September 2003.

The Group continues to enjoy healthy financial position. As at 30 September 2003, the current ratio (current assets divided by current liabilities) was 2.0 times (31 March 2003: 2.8 times) and the gearing ratio (long term liabilities divided by shareholder funds) was 1.5% (31 March 2003: 1.5%).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2003, the Group employed over 11,000 full time employees, of which approximately 60 were based in Hong Kong with the remainder in China.

The Group remunerates its employees largely in accordance with prevailing industry standards. In Hong Kong, the Group's employee benefits include staff retirement scheme, medical scheme and performance bonus. In China, the Group provides its employees staff welfare and allowances in accordance with prevailing labour law. The Group has also put in place a share option scheme to motivate and reward performing staff. At the discretion of the Board of Directors, the Group's employees will be granted options, the amount of which is determined by performance and rank of individual employees.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Share option scheme" and "Directors' interests in shares" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in 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 holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

As at 30 September 2003, the particulars in relation to the share option schemes of the Company that are required to be disclosed under Rules 17.07 and 17.08 of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and SSAP 34, were as follows:

Since the adoption of the new share option scheme on 20 August 2002, no options to subscribe for ordinary shares in the Company have been granted to any eligible participants, including directors or their respective associates or employees of the Company, its holding company or any of its subsidiaries and associates as at 30 September 2003. The options granted under the old scheme will remain in force and effect.

The share options granted by the Company under the old scheme will not be affected by the new share option scheme. 1,760,000 share options granted to other employees under the old scheme on 6 November 1998 with exercise period of 6 November 1998 to 5 November 2008 and exercise price of HK$0.3032 per share remained outstanding as at 30 September 2003.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2003, the interests of the directors and their associates in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

	Number of issued ordinary shares of HK$0.10 each in the Company	
Director	**Personal interests**	**Corporate interests**
Cheng Chor Kit *(note)*	–	265,676,000
Wong Kin Chung	3,050,000	–

Note:

These shares, amounting to around 65.63% of the total issued share capital of the Company, are held by Resplendent Global Limited ("Resplendent"), a company incorporated in the British Virgin Islands. Padora Global Inc. ("Padora") and Shannon Global Limited ("Shannon") are the beneficial owners of approximately 82.9% and 17.1%, respectively, of the issued share capital of Resplendent. Padora is a company incorporated in the British Virgin Islands and is wholly-owned by Polo Asset Holdings Limited, which is ultimately owned by the trustees of a discreptionary trust established by Cheng Chor Kit for his family. Shannon is a company incorporated in the British Virgin Islands which is owned by Cheng Chor Chiu, Cheng Chor Yip and Cheng Chor Kei, the brothers of Cheng Chor Kit, in the ratios of approximately 57.75%, 21.125% and 21.125%, respectively.

Pursuant to two share transfer agreements dated 25 July 2002 and 2 June 2003 entered into between Shannon, Padora, Cheng Chor Chiu, Cheng Chor Yip, Cheng Chor Kei and Cheng Chor Kit whereby Shannon agreed to transfer a total of 40.5% interests in Resplendent to Padora in different phases and the transfers will complete not later than 2 December 2004. As at 30 September 2003, 23.4% interests in Resplendent has been transferred.

The directors' interests in the Company's share options are disclosed above in the section "Share option scheme".

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2003, other than as set out in the section "Directors' interests in shares" above, no person had registered an interest in 10% or more of the issued share capital of the Company in the register of interests that is required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, except that the independent non-executive directors of the Company are not appointed for specific term but subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Company established an Audit Committee (the "Committee") in 1999 in compliance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The Committee was established with written terms of reference, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors. The work of the Committee has covered the financial period ended 30 September 2003.

On behalf of the Board
Cheng Chor Kit
Chairman

Hong Kong, 15 December 2003