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interim report

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祥泰行集團有限公司

CHEUNG TAI HONG HOLDINGS LIMITED

Since 1950 創立

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CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2003

	Notes	Six months ended	
		30.9.2003 (unaudited) HK\$'000	30.9.2002 (unaudited) HK\$'000
Turnover	3	29,465	13,310
Cost of sales		(28,283)	(10,764)
Allowance for properties held for sale		(6,006)	—
Gross (loss) profit		(4,824)	2,546
Investment income		2,930	3,364
Other operating income		1,485	497
Distribution costs		—	(85)
Administrative expenses		(5,336)	(8,575)
Loss on disposal of investments in securities		(7,509)	(17)
Doubtful debts recovered (written off)		21	(5,120)
Unrealised holding gain (loss) in respect of other investments		1,675	(16,864)
Impairment loss recognised in respect of properties under development		—	(34,100)
Loss from operations	4	(11,558)	(58,354)
Finance costs	5	(9,576)	(73)
Profit (loss) on disposal of a subsidiary		20	(713)
Loss before taxation		(21,114)	(59,140)
Taxation	6	—	—
Loss before minority interests		(21,114)	(59,140)
Minority interests		6,453	13,903
Loss for the period		(14,661)	(45,237)
Loss per share (basic)	8	(12.5 cents)	(41.3 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2003

	Notes	30.9.2003 (unaudited) HK\$'000	31.3.2003 (audited) HK\$'000
Non-current assets			
Investment properties	9	17,000	17,000
Property, plant and equipment	10	912	2,360
		<u>17,912</u>	<u>19,360</u>
Current assets			
Properties held for sale		142,150	168,306
Investments in securities		23,398	33,013
Debtors, deposits and prepayments	11	5,667	8,087
Bank balances and cash		126,838	120,112
		<u>298,053</u>	<u>329,518</u>
Current liabilities			
Creditors and accrued charges	12	18,510	14,625
Bank and other borrowings due within one year	13	161,460	178,453
		<u>179,970</u>	<u>193,078</u>
Net current assets		<u>118,083</u>	<u>136,440</u>
Total assets less current liabilities		<u>135,995</u>	<u>155,800</u>
Minority interests		<u>(6,956)</u>	<u>(1,812)</u>
		<u>142,951</u>	<u>157,612</u>
Capital and reserves			
Share capital	14	1,172	234,375
Reserves		141,779	(76,763)
		<u>142,951</u>	<u>157,612</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2003

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Other reserve HK\$'000	Special reserve HK\$'000	(Deficit) accumulated profit HK\$'000	Total HK\$'000
At 1st April, 2002	195,375	335,744	646	–	(8,908)	(351,944)	170,913
Issue of shares	39,000	–	–	–	–	–	39,000
Expenses incurred in connection with issue of shares	–	(745)	–	–	–	–	(745)
Loss for the period	–	–	–	–	–	(45,237)	(45,237)
At 30th September, 2002	234,375	334,999	646	–	(8,908)	(397,181)	163,931
Loss for the period	–	–	–	–	–	(6,319)	(6,319)
At 31st March, 2003	234,375	334,999	646	–	(8,908)	(403,500)	157,612
Capital reorganisation							
– capital reduction (note 14a)	(233,203)	–	–	233,203	–	–	–
– cancellation of share premium (note 14d)	–	(334,999)	–	334,999	–	–	–
– set-off against the accumulated losses (note 14)	–	–	–	(535,894)	–	535,894	–
Loss for the period	–	–	–	–	–	(14,661)	(14,661)
At 30th September, 2003	1,172	–	646	32,308	(8,908)	117,733	142,951

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2003

	Six months ended	
	30.9.2003 (unaudited) HK\$'000	30.9.2002 (unaudited) HK\$'000
Net cash from (used in) operating activities	12,891	(3,750)
Net cash from (used in) investing activities	9,518	(62,680)
Net cash (used in) from financing activities	<u>(15,683)</u>	<u>59,274</u>
Net increase (decrease) in cash and cash equivalents	6,726	(7,156)
Cash and cash equivalents at beginning of the period	<u>120,112</u>	<u>136,437</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u>126,838</u>	<u>129,281</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2003

1. Basis of Preparation

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

2. Principal Accounting Policies

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2003, except as described below.

In the current period, the Group adopted, for the first time, SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision 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 amount of assets and liabilities in the financial statements and the corresponding tax basis 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 adoption of SSAP 12 (Revised) 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

An analysis of the Group's turnover and loss from operations by business segment, the primary segment, is as follows:

Six months ended 30th September, 2003

	Continuing operations		Consolidated HK\$'000
	Motorcycles HK\$'000	Property HK\$'000	
REVENUE			
External sales	9,860	19,605	29,465
SEGMENT RESULTS	557	(5,575)	(5,018)
Unallocated corporate expenses			(6,540)
Loss from operations			(11,558)
Finance costs			(9,576)
Profit on disposal of a subsidiary			20
Loss before taxation			(21,114)
Taxation			-
Loss before minority interests			(21,114)
Minority interests			6,453
Loss for the period			(14,661)

Six months ended 30th September, 2002

	Continuing operations		Discontinuing operations	Consolidated HK\$'000
	Motorcycles HK\$'000	Property HK\$'000	Air conditioning equipment HK\$'000	
REVENUE				
External sales	5,794	436	7,080	13,310
SEGMENT RESULTS	189	(35,605)	(5,368)	(40,784)
Unallocated corporate expenses				(17,570)
Loss from operations				(58,354)
Finance costs				(73)
Loss on disposal of a subsidiary	–	–	(713)	(713)
Loss before taxation				(59,140)
Taxation				–
Loss before minority interests				(59,140)
Minority interests				13,903
Loss for the period				(45,237)

4. Loss from Operations

	Six months ended	
	30.9.2003 HK\$'000	30.9.2002 HK\$'000
Loss from operations for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	100	192
Gain on disposal of property, plant and equipment	(1,473)	(234)

5. Finance Costs

	Six months ended	
	30.9.2003 HK\$'000	30.9.2002 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	9,576	4,852
Less: Amount capitalised to properties under development	–	(4,779)
	9,576	73

6. Taxation

No provision for Hong Kong Profits Tax has been made for the Group as the Company and its subsidiaries had no assessable profit for the period.

The Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment.

No deferred tax asset has been recognised in respect of tax losses and deductible temporary differences due to the unpredictability of future profit streams. At 30th September, 2003, the Group has unrecognised deferred tax asset in respect of tax losses of HK\$91,243,000 (31st March, 2003: HK\$79,301,000) and deductible temporary differences associated with investment properties and property, plant and equipment of HK\$3,743,000 (31st March, 2003: HK\$3,519,000).

7. Dividends

No dividends were paid during the period (1st April, 2002 to 30th September, 2002: nil). The directors do not recommend the payment of an interim dividend.

8. Loss per Share

The calculation of the basic loss per share is based on the following data:

	Six months ended	
	30.9.2003 HK\$'000	30.9.2002 HK\$'000
Loss for the period	14,661	45,237
	Number of shares	Number of shares (restated)
Weighted average number of shares for the purpose of basic loss per share	117,187,656	109,515,525

For the purposes of calculating basic loss per share, the weighted average number of shares for the period ended 30th September, 2002 has been restated to reflect the capital reorganisation in April 2003 as referred to in note 14.

No diluted loss per share is presented as the exercise prices of the share options were higher than the market price of the Company's ordinary shares.

9. Investment Properties

The directors considered that the value of the Group's investment properties at 30th September, 2003 would not differ materially from the professional valuation made as at 31st March, 2003 and, accordingly, no revaluation surplus or deficit has been recognised in the current period.

10. Property, Plant and Equipment

During the period, the Group disposed of property, plant and equipment with a carrying value of HK\$1,348,000 for net proceeds of HK\$2,821,000, resulting in a gain on disposal of HK\$1,473,000. In addition, depreciation of HK\$100,000 (six months ended 30th September, 2002: HK\$192,000) was charged for the period in respect of the Group's property, plant and equipment.

11. Debtors, Deposits and Prepayments

The Group allows credit period ranging from 0 to 30 days to its trade customers.

The following is an aged analysis of trade debtors at the reporting date:

	30.9.2003 <i>HK\$'000</i>	31.3.2003 <i>HK\$'000</i>
0-60 days	1,201	429
61-90 days	13	9
Over 90 days	19	43
	<hr/>	<hr/>
Other debtors, deposits and prepayments	1,233	481
	4,434	7,606
	<hr/>	<hr/>
	5,667	8,087
	<hr/>	<hr/>

12. Creditors and Accrued Charges

The following is an aged analysis of trade creditors at the reporting date:

	30.9.2003 <i>HK\$'000</i>	31.3.2003 <i>HK\$'000</i>
0-60 days	1,215	1,630
61-90 days	18	495
Over 90 days	1,728	1,173
	<hr/>	<hr/>
Other creditors and accrued expenses	2,961	3,298
	15,549	11,327
	<hr/>	<hr/>
	18,510	14,625
	<hr/>	<hr/>

13. Bank and Other Borrowings Due within One Year

During the period, the Group raised and repaid bank and other borrowings of HK\$15,076,000 and HK\$32,069,000, respectively.

14. Share Capital

	Number of shares	Amount HK\$'000
Authorised:		
At 1st April, 2002 and 31st March, 2003, at HK\$0.10 each	4,000,000,000	400,000
Capital reorganisation		
– Share sub-division (<i>note b</i>)	796,000,000,000	–
– Share consolidation (<i>note c</i>)	(760,000,000,000)	–
	<u>40,000,000,000</u>	<u>400,000</u>
At 30th September, 2003, at HK\$0.01 each		
	<u>40,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 1st April, 2002, at HK\$0.10 each	1,953,753,121	195,375
Issue of shares	390,000,000	39,000
	<u>2,343,753,121</u>	<u>234,375</u>
At 31st March, 2003, at HK\$0.10 each	2,343,753,121	234,375
Capital reorganisation		
– Capital reduction (<i>note a</i>)	–	(233,203)
– Share consolidation (<i>note c</i>)	(2,226,565,465)	–
	<u>117,187,656</u>	<u>1,172</u>
At 30th September, 2003, at HK\$0.01 each		
	<u>117,187,656</u>	<u>1,172</u>

Pursuant to an announcement dated 6th March, 2003 (the “Announcement”) and resolutions passed on 14th April, 2003, a capital reorganisation (the “Capital Reorganisation”) was passed and with effect from 15th April, 2003 which involved:

- (a)
 - (i) the nominal value of all issued ordinary shares of HK\$0.10 each in the share capital of the Company (the “Share(s)”) was reduced by HK\$0.0995 each by cancelling an equivalent amount of paid-up capital of the Share so that the nominal value of each such Share was reduced from HK\$0.10 to HK\$0.0005. Accordingly, based upon 2,343,753,121 Shares in issue as at the date of the Announcement, the issued share capital of the Company of HK\$234,375,000 would be reduced by HK\$233,203,000 to HK\$1,172,000 (the “Capital Reduction”); and
 - (ii) the credit arising from such reduction has been credited to the contributed surplus account of the Company;
- (b) every unissued Share of HK\$0.10 was sub-divided into 200 unissued shares of HK\$0.0005 each;
- (c) every 20 issued and unissued shares of HK\$0.0005 each in the capital of the Company were consolidated into one new ordinary share of HK\$0.01 each in the share capital of the Company following the Capital Reorganisation (the “Consolidated Share(s)”). On such basis and after the Capital Reduction, there were 117,187,656 Consolidated Shares in issue (the “Share Consolidation”); and
- (d) the share premium as at 31st January, 2003 in the share premium account of the Company was cancelled and the credit arising therefrom was credited to the contributed surplus account of the Company. Based on the unaudited management accounts of the Company as at 31st January, 2003, the share premium account of the Company amounted to approximately HK\$335 million.

Part of the credit transferred to the contributed surplus account of the Company mentioned in (a)(ii) and (d) above has been used to set off against the deficit of the Company as at 31st January, 2003. According to the unaudited management accounts of the Company as at 31st January, 2003, the deficit of the Company amounted to approximately HK\$535.9 million.

15. Post Balance Sheet Event

On 11th November, 2003, Cheung Tai Hong Holdings (Property) Limited ("CTH"), a wholly-owned subsidiary of the Company, entered into agreements with Mr. Wong Chun Hong ("Mr. Wong"), the sole beneficial shareholder of Asia Progress Investments Limited ("Asia Progress") and Handsworth Investments Limited ("Handsworth"), in respect of the acquisition of the entire issued share capital of and loans to Asia Progress (the "Asia Progress Agreement") and Handsworth (the "Handsworth Agreement") (the "Acquisitions").

Pursuant to the Asia Progress Agreement, CTH has conditionally agreed to acquire the entire issued share capital of Asia Progress from Mr. Wong at a consideration of HK\$1 and accept the assignment of the shareholder's loan owing from Asia Progress to Mr. Wong as at completion date of the Asia Progress Agreement (the "Completion"), which shall not be less than approximately HK\$27,803,000 at a consideration of HK\$1. In addition, Mr. Wong has agreed to grant, before the Completion, an unsecured loan to Master Super Development Limited ("Master Super"), a 60% owned subsidiary of the Company, in a sum of HK\$14,000,000 and upon the Completion, assign the said loan to CTH or its nominee at a consideration of HK\$1. Pursuant to the Handsworth Agreement, CTH has conditionally agreed to acquire the entire issued share capital of Handsworth from Mr. Wong at a consideration of HK\$1 and accept the assignment of the shareholder's loan owing from Handsworth to Mr. Wong at completion date of the Handsworth Agreement, which shall not be less than approximately HK\$83,337,000 at a consideration of HK\$1. The sole investment of each of Asia Progress and Handsworth is the 10% and 30% shareholding interest in Master Super, respectively. After completion of the Asia Progress Agreement and Handsworth Agreement, Master Super will become a wholly owned subsidiary of CTH. The Acquisitions were approved by shareholders at a special general meeting on 12th December, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the period ended 30th September, 2003 was approximately HK\$29,465,000, representing a significant increase of 121% over the same period of last year. The jump in turnover was mainly attributable to the Group's property development project at Sheung Wan, namely Talon Tower, which had been launched for sales since November 2002. During the period, the Group recorded a net loss of approximately HK\$14,661,000, an improvement of 68% as compared with that of last year. Since the superstructure construction of Talon Tower was completed in September 2002, no finance cost had been capitalized thereafter.

Property Development

Talon Tower is a 26-storey commercial and residential building. The top 23 storeys are divided into a total of 66 residential units and a clubhouse and the remaining storeys are for commercial use. The superstructure construction was completed and sales activity had begun since November 2002. As at 30th September, 2003, 17 residential units had been sold.

During the period under review, approximately HK\$19,381,000 of sales was achieved. The proceeds from the sale had been wholly used to repay bank loans.

As at 30th September, 2003, Talon Tower was owned as to 60% by the Group. In light of the continuing recovery of the economy of Hong Kong and the improved sentiment in the property market, the Group announced on 11th November, 2003 that it intended to acquire the remaining 40% interest in Talon Tower. The Board believed that the acquisition would be able to enlarge its potential return since most of the units in Talon Tower had yet to be sold. Furthermore, after the acquisition, Talon Tower would be wholly owned by the Group and the management structure could be streamlined to reduce operating cost and the marketing and promotion campaign could also be executed efficiently. The acquisition was duly approved by the shareholders of the Company on 12th December, 2003.

Trading of Motorcycles

The Group continues to be the distributor of Suzuki motorcycles in Hong Kong and Macau. The turnover for the period was approximately HK\$9,860,000 which showed an increase of 70% as compared with that of last year, as a result of the popularity of scooter in the region. The business contributed a slight profit of approximately HK\$557,000 during the period.

Financial Review

As at 30th September, 2003, the net asset value of the Group was HK\$142,951,000, which was a decrease of 9% over last year end date. The drop was attributable to the net loss reported for the period. The Group maintained a bank and cash balances of approximately HK\$126,838,000, while bank and other borrowings had decreased from HK\$178,453,000 to HK\$161,460,000. These bank and other borrowings comprised mainly the project loans relating to Talon Tower, which amounted to HK\$146,266,000 at the period end date and were bearing interest with reference to prime rate. After the announcement for the acquisition of the remaining 40% interest in Talon Tower, the lending bank issued a revised letter of facilities to the Group in December 2003 setting out the terms of the revised offer and, conditions to be fulfilled which included, inter alia, the completion of the acquisition. Subject to the fulfillment of certain conditions, it is currently expected that completion of the acquisition will take place on 23rd December, 2003. In view of the recent low interest rate, the Group made no hedge for these floating prime rate based borrowings. The gearing ratio of the Group (the ratio of total liabilities over total assets) was 57%.

Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, the Board considered the Group was not subject to any material exchange rate exposure.

On 6th March, 2003, the Group proposed a capital reorganisation ("Capital Reorganisation") involving capital reduction, share sub-division, share consolidation and share premium cancellation. Details are set out in the circular sent to the shareholders on 21st March, 2003. The Capital Reorganisation was approved in a shareholders' meeting and became effective on 15th April, 2003. As a result of the Capital Reorganisation, the nominal value of the shares of the Company has been reduced to HK\$0.01 each.

Rewards for Employees

As at 30th September, 2003, the Group employed 8 persons in Hong Kong. The total personnel expenses amounted to approximately HK\$2,053,000. Employees are remunerated according to qualifications and experience, job nature and performance, as well as market conditions. The Group also provides other benefits such as medical and dental insurance cover and provident fund scheme to the employees. There was no share option granted to any director and employee during the period.

Prospects

During the period under review, the Group continued to suffer loss from property business as a result of persistent downturn in the overall business environment and high unemployment rate, coupled with the outbreak of atypical pneumonia. However, in light of the recent signs of economic recovery following the successful control of the atypical pneumonia, the various further measures taken by the Government aiming to revive the local property market, the introduction of CEPA and the granting of individual travel permit to Hong Kong by certain PRC cities, the Board believes that the acquisition of the remaining 40% interest in Talon Tower will enhance the Group's potential return on the project in the coming periods.

INFORMATION REQUIRED BY THE LISTING RULES

Interim Dividend

The Board does not recommend the payment of interim dividend in respect of the six months ended 30th September, 2003 (1st April, 2002 to 30th September, 2002: Nil).

Directors' Interests in Shares and Underlying Shares

At 30th September, 2003, the interests of the directors and the chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long Positions

- (a) Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Tse Cho Tseung	Interest of a controlled corporation	27,603,196 (Note)	23.55%
Mr. Ding Chung Keung, Vincent	Beneficial owner	13,000	0.01%

Note: These shares were beneficially owned by Lunghin Enterprise Inc. ("Lunghin"), a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung.

- (b) Shares options

Name	Capacity	Number of options held	Number of shares underlying the option	Exercise period (Note)	Price of grant HK\$	Subscription price per share HK\$
Mr. Ding Chung Keung, Vincent	Beneficial owner	48,000	48,000	30.4.1997 to 29.4.2007	1.00	15.84
		24,000	24,000	2.5.1997 to 1.5.2007	1.00	16.50
		22,000	22,000	25.11.1998 to 24.11.2008	1.00	2.10
		75,000	75,000	20.12.1999 to 19.12.2009	1.00	2.56
		60,000	60,000	14.3.2000 to 13.3.2010	1.00	6.60

Note: In the five years from the date of grant, the exercise of the option shall be restricted to a cumulative total of 20% of the entitlement to the option in each year.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th September, 2003.

Share Options

There are two share options schemes adopted by the Company on 28th February, 1994 (the "1994 Scheme") and on 26th August, 2002 (the "2002 Scheme"). Pursuant to a resolution passed on 26th August, 2002, the 1994 Scheme was terminated. The provisions of the 1994 Scheme shall remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the 1994 Scheme. There was no option granted under the 2002 Scheme since its adoption.

The following table discloses movements in the 1994 Scheme during the period:

	Date of grant	Exercise Period (Note 1)	Exercise price before capital reorganisation	Exercise price after capital reorganisation	Number of share options of the Company			
			HK\$ (Note 2)	HK\$ (Note 2)	Outstanding at 1.4.2003	Adjustment due to capital reorganisation (Note 2)	Cancelled during the period	Outstanding at 30.9.2003
Category 1: Director								
Mr. Ding Chung Keung, Vincent	30.4.1997	30.4.1997 to 29.4.2007	0.792	15.840	960,000	(912,000)	-	48,000
	2.5.1997	2.5.1997 to 1.5.2007	0.825	16.500	480,000	(456,000)	-	24,000
	25.11.1998	25.11.1998 to 24.11.2008	0.105	2.100	440,000	(418,000)	-	22,000
	20.12.1999	20.12.1999 to 19.12.2009	0.128	2.560	1,500,000	(1,425,000)	-	75,000
	14.3.2000	14.3.2000 to 13.3.2010	0.330	6.600	1,200,000	(1,140,000)	-	60,000
Total director					<u>4,580,000</u>	<u>(4,351,000)</u>	-	<u>229,000</u>
Category 2: Employees								
Other employees	30.4.1997	30.4.1997 to 29.4.2007	0.792	15.840	120,000	(114,000)	(6,000)	-
Other employees	19.6.1997	19.6.1997 to 18.6.2007	1.092	21.840	168,000	(159,600)	(3,600)	4,800
Other employees	2.2.1998	2.2.1998 to 1.2.2008	0.100	2.000	111,000	(105,450)	(3,550)	2,000
Other employees	17.11.1999	17.11.1999 to 16.11.2009	0.117	2.340	210,000	(199,500)	-	10,500
Other employees	14.3.2000	14.3.2000 to 13.3.2010	0.330	6.600	6,700,000	(6,365,000)	(325,000)	10,000
Total employees					<u>7,309,000</u>	<u>(6,943,550)</u>	<u>(338,150)</u>	<u>27,300</u>
Total all categories					<u>11,889,000</u>	<u>(11,294,550)</u>	<u>(338,150)</u>	<u>256,300</u>

Notes:

- In the five years from the date of grant, the exercise of the option shall be restricted to a cumulative total of 20% of the entitlement to the option in each year.
- Pursuant to resolutions passed in a special general meeting of the Company held on 14th April, 2003, a capital reorganisation scheme, which was disclosed in the circular dated 21st March, 2003, was approved by the shareholders of the Company.

Substantial Shareholder

As at 30th September, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors and chief executives, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Long positions in the ordinary shares of HK\$0.01 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Lunghin	Beneficial owner	27,603,196	23.55%
Loyal Concept Ltd.	Security interest	22,425,000 <i>(Notes 1 and 4)</i>	19.13%
Hanny Magnetics Limited	Security interest	5,178,000 <i>(Notes 2 and 4)</i>	4.42%
Hanny Magnetics (B.V.I.) Limited	Interest of controlled corporations	27,603,000 <i>(Notes 3 and 4)</i>	23.55%
Hanny Holdings Limited	Interest of controlled corporations	27,603,000 <i>(Notes 3 and 4)</i>	23.55%

Notes:

1. These shares were pledged to Loyal Concept Ltd. by Lunghin pursuant to a loan agreement and a share mortgage agreement both dated 29th October, 2001.
2. These shares were pledged to Hanny Magnetics Limited by Lunghin pursuant to another share mortgage agreement dated 24th April, 2002.
3. Hanny Magnetics (B.V.I.) Limited and Hanny Holdings Limited were taken to have an interest in 27,603,000 shares since Loyal Concept Ltd. and Hanny Magnetics Limited are wholly-owned subsidiaries of Hanny Magnetics (B.V.I.) Limited, which in turn is a wholly-owned subsidiary of Hanny Holdings Limited, a public company listed on The Stock Exchange of Hong Kong Limited.
4. Save as disclosed herein, Loyal Concept Ltd., Hanny Magnetics Limited, Hanny Magnetics (B.V.I.) Limited and Hanny Holdings Limited are not connected with the Company, its directors, chief executive, substantial shareholders or any of its subsidiaries or their respective associates.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th September, 2003.

Audit Committee

The unaudited interim financial statements of the Group for the six months ended 30th September, 2003 have been reviewed by audit committee of the Company.

Corporate Governance

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September, 2003, in compliance 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.

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 period.

By Order of the Board
Tse Cho Tseung
Chairman

Hong Kong, 22nd December, 2003