

Interim Report **2004** 二零零四年中期報告



HUAFENG TEXTILE INTERNATIONAL GROUP LIMITED
華豐紡織國際集團有限公司



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Zhen Rong (*Chairman*)

Mr. Cai Zhen Yao

Mr. Cai Zhen Ying

Mr. Cai Yang Bo

Mr. Choi Wing Toon

Mr. Mak Shiu Chung, Godfrey

Independent Non-Executive Directors

Ms. Choy So Yuk

Mr. Lawrence Gonzaga

AUDIT COMMITTEE

Ms. Choy So Yuk

Mr. Lawrence Gonzaga

COMPANY SECRETARY

Mr. Yeung Kwong Wai *AHKSA AICPA CFA*

REGISTERED OFFICE

Century Yard, Cricket Square

Hutchins Drive, P.O. Box 2681 GT

George Town, Grand Cayman

Cayman Islands

British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2901

Shun Tak Centre, West Tower

200 Connaught Road Central

Hong Kong

REGISTRARS

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited

36C Bermuda House, 3rd Floor

P.O. Box 513 GT

Dr. Roy's Drive, George Town

Grand Cayman, Cayman Islands

British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited

G/F., Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

The Board of Directors (the “Board” or “Directors”) of Huafeng Textile International Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 March 2004. The results have been reviewed by the audit committee of the Company (the “Audit Committee”).

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 31 March	
		2004 (Unaudited) HK\$'000	2003 (Unaudited and restated) HK\$'000
TURNOVER	2	176,099	157,400
Cost of services provided and cost of sales		(104,854)	(88,233)
Gross profit		71,245	69,167
Other revenue		578	54
Selling and distribution expenses		(6,967)	(5,441)
Administrative expenses		(9,457)	(7,291)
Other operating expenses		(1,080)	(1,300)
PROFIT FROM OPERATING ACTIVITIES	3	54,319	55,189
Finance costs	4	(2,703)	(570)
PROFIT BEFORE TAXATION		51,616	54,619
Taxation	5	(998)	(9,025)
PROFIT BEFORE MINORITY INTERESTS		50,618	45,594
Minority interests		(2)	(13)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		50,616	45,581
EARNINGS PER SHARE			
Basic	7	HK6.6 cents	HK7.1 cents
Diluted		HK6.2 cents	HK7.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

31 March 2004

		31 March 2004 (Unaudited)	30 September 2003 (Audited and restated)
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Fixed assets		316,324	239,905
Deposits paid for acquisition of fixed assets		42,298	42,040
		358,622	281,945
CURRENT ASSETS			
Inventories		57,656	32,122
Trade receivables	8	88,677	82,686
Prepayments, deposits and other receivables		24,943	2,652
Bank and cash balances		71,622	114,537
		242,898	231,997
CURRENT LIABILITIES			
Short-term bank borrowings	9	65,943	38,396
Trade payables	10	38,470	31,365
Other payables and accruals		22,631	11,874
Provision for taxation		224	52,502
		127,268	134,137
NET CURRENT ASSETS		115,630	97,860
TOTAL ASSETS LESS CURRENT LIABILITIES		474,252	379,805
NON-CURRENT LIABILITIES			
Long-term bank borrowings	11	50,000	-
Deferred tax liabilities		6,858	7,062
		56,858	7,062
MINORITY INTERESTS			
		11,960	1,818
		405,434	370,925
CAPITAL AND RESERVES			
Issued capital	12	7,736	7,716
Reserves		385,319	345,848
Proposed dividend	6	12,379	17,361
		405,434	370,925

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2004

	Share capital HK\$'000	Share premium HK\$'000	Fixed asset revaluation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 1 October 2003 (Audited)	7,716	133,304	26,649	192,882	17,361	377,912
Adjustment on adoption of SSAP 12 (revised)	-	-	(7,384)	397	-	(6,987)
As restated	7,716	133,304	19,265	193,279	17,361	370,925
Shares issued on exercise of warrants	20	1,241	-	-	-	1,261
Final dividend paid	-	-	-	(7)	(17,361)	(17,368)
Net profit for the period	-	-	-	50,616	-	50,616
Proposed interim dividend	-	-	-	(12,379)	12,379	-
At 31 March 2004 (Unaudited)	7,736	134,545	19,265	231,509	12,379	405,434
	Share capital HK\$'000	Share premium HK\$'000	Fixed asset revaluation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000
At 1 October 2002 (Audited)	6,400	32,675	22,880	129,655	12,800	204,410
Adjustment on adoption of SSAP 12 (revised)	-	-	(6,366)	-	-	(6,366)
As restated	6,400	32,675	16,514	129,655	12,800	198,044
Final dividend paid	-	-	-	-	(12,800)	(12,800)
Net profit for the period	-	-	-	45,581	-	45,581
Proposed interim dividend	-	-	-	(9,600)	9,600	-
At 31 March 2003 (Unaudited)	6,400	32,675	16,514	165,636	9,600	230,825

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 March	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	(27,187)	58,574
NET CASH USED IN INVESTING ACTIVITIES	(74,553)	(28,464)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	58,825	(12,800)
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS	(42,915)	17,310
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	114,537	71,526
CASH AND CASH EQUIVALENTS AT END OF PERIOD	71,622	88,836
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	71,622	88,836

NOTES TO FINANCIAL STATEMENTS

31 March 2004

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those used in the annual financial statements for the year ended 30 September 2003, except as described below:

In the current period, the Group adopted SSAP 12 (revised) “Income Taxes” for the first time in the preparation of the current period’s condensed consolidated financial statements. The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, deferred tax was provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purpose, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax is not recognised until its realisation is assessed beyond reasonable doubt. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax liabilities are provided in full 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. While deferred tax assets are recognised to the extent that it is possible that the future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively and the comparative figures have been restated accordingly.

The cumulative effect of the adoption of SSAP 12 (revised) as at 1 October 2003 and 1 October 2002 are summarised as follows:

- an increase in the Group’s deferred tax liabilities by approximately HK\$7,062,000 (2002: HK\$6,435,000).
- a decrease in minority interests in the consolidated balance sheet by approximately HK\$75,000 (2002: HK\$69,000).
- a decrease in the Group’s fixed assets revaluation reserve by approximately HK\$7,384,000 (2002: HK\$6,366,000).

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

- an increase in the Group's opening retained profits by approximately HK\$397,000 (2002: Nil).

The consolidated net profit attributable to shareholders for the six months ended 31 March 2004 and 31 March 2003 have increased by approximately HK\$202,000 and HK\$198,000, respectively.

2. SEGMENT INFORMATION
(a) Geographical segments based on the location of customers

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers.

Six months ended 31 March 2004 (Unaudited)

	Hong Kong 2004 HK\$'000	The Philippines 2004 HK\$'000	Elsewhere in Asia 2004 HK\$'000	Africa, Australia and North America 2004 HK\$'000	Consolidated 2004 HK\$'000
Segment revenue:					
Sales to external customers	2,072	110,884	31,701	31,442	176,099
Segment results	682	38,238	6,706	13,080	58,706
Unallocated revenue					578
Unallocated expenses					(4,965)
Profit from operating activities					54,319
Finance costs					(2,703)
Profit before taxation					51,616
Taxation					(998)
Profit before minority interests					50,618
Minority interests					(2)
Net profit from ordinary activities attributable to shareholders					50,616

2. SEGMENT INFORMATION (continued)
(a) Geographical segments based on the location of customers (continued)
Six months ended 31 March 2003 (Unaudited and restated)

	Hong Kong 2003 HK\$'000	The Philippines 2003 HK\$'000	Elsewhere in Asia 2003 HK\$'000	Africa, Australia and North America 2003 HK\$'000	Consolidated 2003 HK\$'000
Segment revenue:					
Sales to external customers	4,625	103,185	16,471	33,119	157,400
Segment results	1,515	35,691	3,410	15,620	56,236
Unallocated revenue					54
Unallocated expenses					(1,101)
Profit from operating activities					55,189
Finance costs					(570)
Profit before taxation					54,619
Taxation					(9,025)
Profit before minority interests					45,594
Minority interests					(13)
Net profit from ordinary activities attributable to shareholders					45,581

(b) Business segments

No business segment information has been disclosed as over 90% of the Group's revenue and results are derived from its principal activity of the provision of fabric processing services.

3. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 31 March	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation	8,053	4,486
Interest income	(60)	(54)

4. FINANCE COSTS

	Six months ended 31 March	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Bank facilities arrangement fees	901	-
Interest on bank loans wholly repayable within five years	1,802	570
	<u>2,703</u>	<u>570</u>

5. TAXATION

	Six months ended 31 March	
	2004 (Unaudited) HK\$'000	2003 (Unaudited and restated) HK\$'000
Current period provision:		
Macau	-	8,932
Elsewhere	1,202	293
	<u>1,202</u>	<u>9,225</u>
Deferred tax:		
Current period	(204)	(200)
Tax charge for the period	<u>998</u>	<u>9,025</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the period (2003: Nil).

Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which it operates, based on existing legislation, interpretations and practices in respect thereof.

6. DIVIDENDS

The Directors have declared an interim dividend of HK1.6 cents (2003: HK1.5 cents) per share for the six months ended 31 March 2004 to all shareholders whose names appear on the register of members of the Company on 28 July 2004.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the Group's net profit from ordinary activities attributable to shareholders for the period of approximately HK\$50,616,000 (2003: HK\$45,581,000) and the weighted average number of 772,019,650 (2003: 640,000,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the Group's net profit from ordinary activities attributable to shareholders for the period of approximately HK\$50,616,000 (2003: HK\$45,581,000) and on the weighted average number of 772,019,650 (2003: 640,000,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation, plus the weighted average of 42,821,779 (2003: 2,904,307) ordinary shares assumed to have been issued at HK\$0.65 per share on the deemed exercise of all warrants outstanding during the period.

8. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. A 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the service income or goods sold, is as follows:

	31 March 2004 (Unaudited) HK\$'000	30 September 2003 (Audited) HK\$'000
0 – 30 days	33,058	30,080
31 – 60 days	27,590	25,160
61 – 90 days	21,475	20,549
Over 90 days	6,554	6,897
	88,677	82,686

9. SHORT-TERM BANK BORROWINGS

As at 31 March 2004, the short-term bank borrowings were fixed interest bearing and secured by a corporate guarantee given by a subsidiary of the Company.

10. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of consumables or goods purchased, is as follows:

	31 March 2004 (Unaudited) HK\$'000	30 September 2003 (Audited) HK\$'000
0 – 30 days	18,926	12,524
31 – 60 days	11,850	11,413
61 – 90 days	5,837	6,757
Over 90 days	1,857	671
	<u>38,470</u>	<u>31,365</u>

11. LONG-TERM BANK BORROWINGS

As at 31 March 2004, the long-term bank borrowings were floating-interest bearing, secured by a corporate guarantee given by the Company, and repayable by instalments over a period of three years.

12. SHARE CAPITAL

	31 March 2004 (Unaudited) HK\$'000	30 September 2003 (Audited) HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:		
773,552,000 (2003: 771,612,000) ordinary shares of HK\$0.01 each	<u>7,736</u>	<u>7,716</u>

During the period, 1,940,000 warrants were exercised for 1,940,000 shares of HK\$0.01 each at HK\$0.65 per share.

13. CONTINGENT LIABILITIES

As at 31 March 2004, the Group did not have any significant contingent liabilities (30 September 2003: Nil).

14. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings range from one to two years.

As at 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

	31 March 2004 (Unaudited) HK\$'000	30 September 2003 (Audited) HK\$'000
Within one year	1,102	403
In the second to fifth years, inclusive	223	63
	<u>1,325</u>	<u>466</u>

15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14 above, the Group had capital commitments as at the balance sheet date as follows:

	31 March 2004 (Unaudited) HK\$'000	30 September 2003 (Audited) HK\$'000
Authorised but not contracted for:		
Purchases of a parcel of land	6,983	6,983
Contracted but not provided for:		
Construction of leasehold land and buildings	10,945	8,676
Purchases of plant and machinery	21,887	19,361
Capital contributions payable to a joint venture company	7,800	-
	<u>40,632</u>	<u>28,037</u>
	<u>47,615</u>	<u>35,020</u>

16. RELATED PARTY TRANSACTIONS

During the period, the Group entered into a rental agreement with a minority shareholder of a subsidiary of the Company for leasehold land and buildings for a term of one year at an annual rental of approximately HK\$755,000. The annual rental was determined based on market rental.

17. POST BALANCE SHEET EVENT

On 31 May 2004, the Group entered into a joint venture agreement with Manifattura di Valle Brembana S.p.A. (“MVB”), an independent third party, to establish a joint venture for the purpose of carrying out manufacturing operations in the People’s Republic of China (the “PRC”) to produce high quality shirting fabrics. Pursuant to the agreement, the Group’s total investment in the joint venture is Euro3,885,000 (equivalent to approximately HK\$36,869,000). Upon the completion of the joint venture agreement, the Group and MVB shall have 51% and 49% respectively of the shareholdings of the joint venture company.

18. COMPARATIVE FIGURES

Due to the adoption of SSAP 12 (revised) during the current period as explained in Note 1 to the interim financial statements, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been restated and reclassified to conform with the current period’s presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group's unaudited consolidated turnover for the period was approximately HK\$176 million, representing an increase of 12% as compared to the corresponding period last year. Net profit attributable to shareholders amounted to approximately HK\$50.6 million, representing an 11% increase over the same period in 2003. The moderate performance during the period was resulted from the Group's success in the implementation of a series of business diversification and capacity expansion.

BUSINESS REVIEW

During the period, the Group achieved significant progress in its business expansion. Adding to our already established fabric processing operations, scope of businesses was broadened to encompass: cotton yarn spinning, grey fabric manufacturing, fabric processing of additional fabric types, marketing & distribution and establishment of its own brand-name fabric.

We launched two major yarn spinning operations through our wholly-owned subsidiaries during the period, both of which became fully operative in March 2004 : (1) Fenghua Textile specializes in cotton yarn spinning with an annual capacity of 65,000 spindles (approximately 12,000 tonnes) ; (2) Lianyungang Huafeng specializes in cotton processing and cotton yarn spinning with an annual capacity of 40,000 spindles (approximately 7,000 tonnes). Timely expansion of such production capacities could be initiated to complement future business growth externally, and to ensure abundant supply of raw materials for our shirting and grey fabric manufacturing business internally.

In February 2004, the Group and Shenyang Huayue Dyeing & Printing Company Limited ("Shenyang Huayue") entered into a joint venture agreement to establish Shenyang Huafeng Dyeing & Printing Co., Ltd ("Shenyang Huafeng") . Principally engaged in fabric processing, ranging from dyeing, setting, finishing to printing of varied fabrics, Shenyang Huayue owns a well-equipped processing plant and an excellent customer network. The Board believes that the 53.6%-owned subsidiary will fortify our current processing operations and accelerate our business growth in Northern China.

BUSINESS REVIEW (continued)

Shortly after the period under review, the Group reached a significant joint venture (“JV”) agreement with a renowned Italian shirting fabrics producer, Manifattura di Valle Brembana S.p.A. (“MVB”) on 31 May 2004. On top of cash investment, the Group will take charge of the procurement, manufacturing and dyeing of cotton yarn, and weaving and processing of shirting fabrics; while MVB will be responsible for R&D, design and quality control; finishing and sales & marketing of the fabrics. End products manufactured by the JV will all initially be sold in Europe through MVB and it is envisaged that the Asian market will play an equally important role in the medium term. A processing plant adjoining the Group’s existing facilities in the PRC will be constructed to facilitate such operation. Blending local and international expertise, we saw remarkable opportunities to enhance our technical know-how and processing technologies. Capitalizing on MVB’s reputation in Europe, our platform for penetrating into the European market is now firmly in place.

PROSPECTS

The year 2003 was marked by a volatile currency market and soaring oil prices, leading to great uncertainties in the global economy. Despite the unfavorable market sentiments, the Group has achieved satisfactory performance through its prudent expansion strategies. Capitalizing on the fast growing economy of China, our visionary management has focused on building up its presence in China years ago. In addition to the sales offices in Guangzhou and Shanghai, the Group will operate two more sales points in Beijing and Chengdu, enhancing its marketing network to promote the Group’s comprehensive range of products and services.

Looking ahead, the Group is set to allocate more resources to facilitate business expansion in China, with parallel developments in the overseas markets. As China plays an increasingly significant role in the world, we will concentrate on enhancing and expanding our operations in the territory to benefit from the growing economy. The Group is all set to make timely capacity expansion to complement business growth. We will continue to explore alliance opportunities with international entities to accelerate our market expansion. We believe that the Group is in good shape and on course to bring forth satisfactory results in the coming years.

LIQUIDITY AND FINANCIAL RESOURCES

The Group principally financed its operations and investing activities by its internally generated cash funding and bank borrowings. As at 31 March 2004, the Group had total bank borrowings of approximately HK\$116 million, of which approximately HK\$66 million being short-term bank borrowings with fixed interest bearing and approximately HK\$50 million being long-term bank borrowings with floating-interest bearing. The total bank borrowings were fully secured by corporate guarantees given by the Company and a subsidiary of the Company. With the increase in bank borrowings of approximately HK\$78 million, the Group's gearing ratio, which was calculated on the basis of total bank borrowings to the total shareholders' equity, increased from 0.10 as at 30 September 2003 to 0.29 as at 31 March 2004. The increase in bank borrowings resulted mainly from (1) the substantial amount of capital expenditures of approximately HK\$75 million incurred during the period to facilitate various business expansions and (2) additional working capital required for the new business investment in cotton yarn spinning.

Despite the substantial increase in bank borrowings, the Group's financial position remained healthy and liquid. As at 31 March 2004, the Group had cash and cash equivalents of approximately HK\$72 million, current assets of approximately HK\$243 million, and net current assets of approximately HK\$116 million. The current ratio of the Group, which was calculated on the basis of current assets to the current liabilities, improved from 1.73 as at 30 September 2003 to 1.91 as at 31 March 2004. The Group had sufficient financial resources to discharge its debts and to finance its daily operations.

FOREIGN EXCHANGE EXPOSURE

Sales of the Group are mainly denominated in US dollars, Hong Kong dollars and Renminbi. Purchase of raw materials is mainly in US dollars and Renminbi. Bank borrowings are also denominated in Renminbi and Hong Kong dollars. As the exchange rates of US dollars against Hong Kong dollars and Renminbi were relatively stable during the period, the Group's exposure to fluctuations in exchange rates is considered minimal.

CAPITAL EXPENDITURES

During the period under review, the Group invested approximately HK\$23 million for the expansion of fabric processing production capacity, and approximately HK\$52 million for the construction of cotton yarn spinning plants.

As at 31 March 2004, the Group had capital commitments of approximately HK\$48 million in respect of purchase of machinery, construction of new plant, and capital contributions to a joint venture company.

Save as disclosed elsewhere in Management Discussion and Analysis, as at 31 March 2004, the Group had no future plans for material investments.

CHARGES ON ASSETS

As at 31 March 2004, the Group did not have any assets pledged for general facilities granted by banks.

CONTINGENT LIABILITIES

As at 31 March 2004, the Group did not have any significant contingent liabilities (30 September 2003: Nil).

EMPLOYEES

As at 31 March 2004, the Group has approximately 1,568 full time employees in Hong Kong, Macau and the PRC. The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. In addition to competitive package offered to the employees, share options of the Company may be granted by the Group to enable its employees to participate in the growth of the Group.

DISCLOSURE OF ADDITIONAL INFORMATION

INTERIM DIVIDEND

The directors of the Company have resolved to declare an interim dividend of HK1.6 cents per share for the six months ended 31 March 2004 (2003: HK1.5 cents). The total dividends will be approximately HK\$12,379,000 (2003: HK\$10,080,000). The dividend will be payable on or about Friday, 20 August 2004 to shareholders whose names appear on the Register of Members on 28 July 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 July 2004 to 28 July 2004 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 21 July 2004.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2004, the interests of the directors and chief executives of the Company or their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO), or to be recorded in the register required to be maintained pursuant to Section 352 of the SFO, or otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in the shares or underlying shares of the Company

Name of director	Capacity	Type of interest	Number of shares held	Percentage of shareholding in the Company
Mr Cai Zhen Rong	Beneficial owner	Personal	406,800,000	52.59%

Rights to acquire the shares of the Company

Bonus warrants were granted following the placing and new issues of shares of the Company on 29 August 2002. Each holder of the bonus warrants will entitle to subscribe for one ordinary share of the Company at HK\$0.65 subject to adjustment. They are exercisable from 30 August 2002 to 21 August 2005 (both dates inclusive).

Name of director	Capacity	Type of interest	Number of warrants held	Percentage of interests to the issued share capital
Mr Cai Zhen Rong	Beneficial owner	Personal	48,000,000	6.21%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Rights to acquire the shares of the Company (continued)

Save as disclosed above, as at 31 March 2004, none of the directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or to be recorded in the register required to be maintained pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code in the Listing Rules.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "SO Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entities providing research, development or other technological support to the Group, and any minority shareholder in the Company's subsidiaries. The SO Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month year, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

SHARE OPTION SCHEME (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within 12-month year, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise year of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the SO Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

No options had been granted or agreed to be granted under the SO Scheme during the period for the six months ended 31 March 2004.

To ensure the transparency of the status in relation to the granting of share options of the Company on 19 August 2003, the Company made an announcement to the public that it would make announcement to inform the shareholders promptly every time when the directors of the Company approve granting of any further share option.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, to the best knowledge of the directors of the Company, the parties (other than a director or chief executive of the Company) who have interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Type of interest</u>	<u>Number of shares held</u>	<u>Percentage of shareholding in the Company</u>
Value Partners Limited	Beneficial owner	Corporate	61,904,000	8.00%
Cheah Cheng Hye	Interest of a controlled corporation (Note 1)	Corporate	61,904,000	8.00%

Note:

1. Mr. Cheah Cheng Hye owned approximately 31.82% of the entire issued share capital of Value Partners Limited. Mr. Cheah Cheng Hye are taken to be interested in these 61,904,000 shares held by virtue of the SFO.

Save as disclosed above, as at 31 March 2004, the directors of the Company were not aware of any other person (other than a director or chief executive of the Company) has an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBTNETURES

Apart from as disclosed under the headings "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" and "Share option scheme", at no time during the period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the directors of the Company or their associates (as defined in the "Listing Rules") to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Company has established an audit committee in according with the requirements of the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. This interim report has been reviewed by the Audit Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, the requirements of the Stock Exchange and other legal requirements, that adequate disclosures have been made.

CODE OF BEST PRACTICE

In the opinion of the directors of the Company, the Company has complied with the Code throughout the period for the six months ended 31 March 2004, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

On behalf of the Board

Cai Yang Bo

Executive Director

Hong Kong, 18 June 2004