



# POLYTEC ASSET HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*



Interim Report 2004

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## CHAIRMAN'S STATEMENT

The Group recorded a net profit of HK\$1.6 million for the six months ended 31 May 2004, a turnaround from a net loss of HK\$4.5 million in the corresponding period last year, with its turnover rising by 155% to HK\$34.5 million. We are confident that the Group's profit will improve significantly with its new vision.

### **New Company Name and New Vision**

The name of the Company has been changed to "Polytec Asset Holdings Limited 保利達資產控股有限公司" with effect from 21 January 2004. The change of name reflects a rejuvenated group with new strategies and a clear direction for its future. Its mission is to deliver high growth and solid earnings to its shareholders through asset acquisitions and investments.

### **New Business Strategy**

As the new name indicated, the Company is now an asset holdings company. It essentially holds or invests in any asset class which offers an immediate or long-term potentially satisfactory rate of returns. Currently, we focus on asset acquisitions and investments in the markets that we are familiar with, the Greater China, where we are confident that we have niches and expertise to enhance the value of every acquired asset as well as to realise it at a satisfactory profit. We intend to extend our strategy to other markets in Asia or in other regions in the future.

### **Business Review**

In June 2004, the Group raised over HK\$152 million through a rights issue to broaden its capital base. The fund was used as a partial payment for the acquisition of a 50% interest in a substantial part of a commercial building, which is situated at Av. Do Infante D. Henrique, the central district in Macao, for the consideration of HK\$212.5 million. The building will soon be renamed as "The Macau Square 澳門廣場". The acquired properties cover an aggregate gross floor area ("GFA") of 45,453 square metres of retail, office and car parking spaces, representing 76% of the estimated aggregate GFA of the whole building. While they are still under renovations, they will likely generate a steady rental income from 2005. The management believes that the Macao economy will sustain a high rate of growth in the next few years and the value of properties will appreciate further.

On 2 July 2004, the Group entered into another sale and purchase agreement for the acquisition of a parcel of properties in Macao for the consideration of HK\$84.6 million of 70.5% interest effectively. The acquired properties comprise mainly an estimated aggregate GFA of 15,934 square metres of retail and office spaces of China Plaza, which is situated at Avenida da Praia Grande, the central district in Macao. We intend to retain the China Plaza properties in our property investment portfolio to generate a steady rental income to the Group and dispose of other properties in the parcel to realise immediate profits.

In Hong Kong, the development work of joint venture project of low-rise houses in Kau To Shan, Shatin, has been started. As the management is optimistic about the outlook for the economy and believes the demand for the low-rise deluxe houses will rise significantly in the next few years, it now intends to expand the project to a larger scale. As a result, the completion date of the project will be extended.

Our securities investment business continued to post a satisfactory performance, contributing a significant portion to the Group's revenues in the first half of the year. Securities purchased were mainly blue-chip shares in Hong Kong.

## **Financial Review**

### *Liquidity, financial resources and capital structure*

In the period under review, the Group's liquidity and financial resources positions were sound. As at 31 May 2004, the Group had cash and bank balances of HK\$1.7 million and other liquid assets of HK\$52.5 million. Although it had been entering into temporary short-term loan arrangements which were denominated in Hong Kong dollars and borne cost at the prevailing market interest rate during the first half of its financial year 2004, the Group had no outstanding external debt as at 31 May 2004.

### *Capital reorganisation*

On 6 May 2004, the Company completed a capital reorganisation scheme to facilitate the future dividend distribution of the Company. The capital reorganisation scheme involved:

- cancellation of the share premium and the capital reserve of HK\$118.8 million and HK\$59.8 million respectively;
- reduction of the par value of ordinary share of HK\$0.01 (“Share”) in issue to HK\$0.005 each (“Reduced Share”) which gave rise a credit of HK\$30.5 million;
- application of the credit arising from the above to eliminate the accumulated losses of the Company; and
- consolidation of every 20 Reduced Shares into one consolidated share (“Consolidated Share”) of which par value is HK\$0.1 each in issue and every 10 unissued Shares into one unissued Consolidated Share.

Despite the fact that the issued capital of the Company has reduced from HK\$64.8 million to HK\$34.3 million upon completion of this scheme, it would not affect any assets and liabilities positions of the Group or the shareholders’ equity as a whole. A total credit of HK\$209.1 million was resulted from the capital reorganisation. After offsetting the credit with the accumulated losses, the Company has a retained profit of HK\$11.5 million as at 31 May 2004.

### *Rights issue and capital base*

On 13 April 2004, the Company announced to proceed a rights issue (“Rights Issue”) on the basis of one rights share for every one Consolidated Share held by the shareholders at a price of HK\$0.5 each. This was aimed to broaden the capital base of the Group and to finance the acquisition of the properties at Av. Do Infante D. Henrique. The Rights Issue was completed on 16 June 2004 and resulted

in the issue of 304,953,621 new Consolidated Shares with the total proceeds of HK\$152.5 million, before related expenses. After completion of the Rights Issue, the issued capital of the Company returned to the same level as immediate before the completion of the capital reduction of HK\$64.8 million.

*Post balance sheet date transactions*

Subsequent to the balance sheet date, the Group has completed the acquisitions of the 50% interest in a significant part of a commercial building at Av. Do Infante D. Henrique and the 70.5% interest in a parcel of properties in Macao including a significant part of the China Plaza. The two acquisitions, which amounted to HK\$297 million, were mainly financed by the proceeds from the Rights Issue and the loans from the Company's ultimate holding company ("Ultimate Holding Company").

**Employees**

As at 31 May 2004, the total number of employees of the Group was 7. The Group remunerates its employees by means of salary, bonus and other fringe benefits based on their performance, working experience and prevailing market practice.

**Yeung Kwok Kwong**

*Chairman*

Hong Kong, 23 August 2004

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>For the six months ended 31 May</b>	
	<i>Notes</i>	<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
TURNOVER	2	<b>34,458</b>	13,488
Cost of sales		<b>(30,187)</b>	(13,074)
Gross profit		<b>4,271</b>	414
Other revenue		<b>2,037</b>	1,676
Selling and distribution costs		<b>(126)</b>	(48)
Administrative expenses		<b>(4,524)</b>	(5,336)
Other operating expenses		<b>(11)</b>	(342)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		<b>1,647</b>	(3,636)
Finance costs		<b>(1)</b>	(892)
PROFIT/(LOSS) BEFORE TAX	3	<b>1,646</b>	(4,528)
Tax	4	—	—
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		<b>1,646</b>	(4,528)
Minority interests		—	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>1,646</b>	(4,528)
EARNINGS/(LOSS) PER SHARE	5		
— Basic		<b>HK0.55 cent</b>	HK(1.52) cent
— Diluted		<b>HK0.33 cent</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	<b>31 May 2004 HK\$'000 (Unaudited)</b>	30 November 2003 HK\$'000 (Audited)
NON-CURRENT ASSETS		
Fixed assets	<b>36</b>	40
Interests in jointly-controlled entities	<b>1,690</b>	4,450
	<b>1,726</b>	4,490
CURRENT ASSETS		
Prepayments, deposits and other receivables	<b>1,411</b>	838
Short term investments	<b>52,500</b>	24,865
Cash and cash equivalents	<b>1,660</b>	22,602
	<b>55,571</b>	48,305
CURRENT LIABILITIES		
Accrued liabilities and other payables	<b>1,792</b>	1,612
	<b>1,792</b>	1,612
NET CURRENT ASSETS	<b>53,779</b>	46,693
TOTAL ASSETS LESS CURRENT LIABILITIES	<b>55,505</b>	51,183
CAPITAL AND RESERVES		
Issued capital	<b>34,347</b>	63,504
Reserves	<b>21,158</b>	(12,321)
	<b>55,505</b>	51,183



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended 31 May</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
NET CASH INFLOW/(OUTFLOW) FROM		
— OPERATING ACTIVITIES	<b>(23,895)</b>	(51,599)
— INVESTING ACTIVITIES	<b>277</b>	—
— FINANCING ACTIVITIES	<b>2,676</b>	18,932
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(20,942)</b>	(32,667)
Cash and cash equivalents at beginning of period	<b>22,602</b>	42,686
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>1,660</b>	10,019
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
— Cash and bank balances	<b>1,660</b>	10,019

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Fixed asset revaluation reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 December 2002	63,504	122,818	1,699	35	(1,043)	(152,428)	34,585
Net loss for the period	—	—	—	—	—	(4,528)	(4,528)
At 31 May 2003	63,504	122,818	1,699	35	(1,043)	(156,956)	30,057
At 1 December 2003	63,504	122,818	—	—	—	(135,139)	51,183
Cancellation of share premium	—	(118,818)	—	—	—	118,818	—
Contribution to and conversion into ordinary shares of convertible preference shares	1,338	1,338	—	—	—	—	2,676
Capital reduction	(30,495)	—	—	—	—	30,495	—
Net profit for the period	—	—	—	—	—	1,646	1,646
At 31 May 2004	34,347	5,338	—	—	—	15,820	55,505

## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. Accounting policies

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

The accounting policies used in these unaudited interim financial statements are consistent with those used in the annual financial statements of the Group for the year ended 30 November 2003, except for the adoption of revised SSAP 12 “Income Taxes” which is effective for the first time for the current period’s financial statements.

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liabilities method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### 2. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Geographical segment information has not been disclosed as over 90% of the Group’s revenue, results, assets and liabilities were derived from operations in the People’s Republic of China, including Hong Kong.

For the six months ended 31 May 2004, the Group has two business segments, namely the securities investment and trading, and trading of garments. The securities investment and trading constitutes more than 90% of the Group’s revenue. Moreover, the segment assets for the trading of garments are less than 10% of the total assets of all segments. Therefore, no business segment analysis is presented. In addition to participating in a joint development project in Kau To Shan, Shatin, the Group is also expanding its property investment, development and trading business (notes 7(a) and 9).

### 3. Profit/(loss) before tax

Profit/(loss) before tax is arrived at after charging:

	For the six months ended 31 May	
	2004	2003
	HK\$'000	HK\$'000
Depreciation	7	180

### 4. Tax

No tax has been provided for the six months ended 31 May 2004 (2003: Nil), as the Group either had no assessable profits or had sufficient tax losses brought forward from the prior year to offset the assessable profits during the period.

Deferred tax has not been provided for the six months ended 31 May 2004 (2003: Nil), as the Group has no material timing difference in the recognition of revenue and expenses for tax and for financial reporting purposes.

### 5. Earnings/(loss) per share

The calculation of basic earnings per share for the six months ended 31 May 2004 is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$1,646,000 (2003: loss of HK\$4,528,000) and the weighted average of 300,321,982 (2003: 297,518,622) ordinary shares in issue during the period. The comparative amount of basic loss per share has been restated, as the number of ordinary shares in prior period has been adjusted for the consolidation of every 20 ordinary shares in issue into 1 ordinary share during the current period.

The calculation of diluted earnings per share for the six months ended 31 May 2004 is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$1,646,000 and the weighted average of 494,076,857 ordinary shares after adjusting for the effects of dilutive potential ordinary shares in respect of convertible preference shares. The diluted loss per share for the six months ended 31 May 2003 is not presented because the Company's outstanding convertible preference shares were anti-dilutive.

### *Number of ordinary shares*

Weighted average number of ordinary shares used in calculating basic earnings per share	300,321,982
Effect of dilutive potential ordinary shares in respect of convertible preference shares	193,754,875
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Weighted average number of ordinary shares used in calculating diluted earnings per share	494,076,857
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#### **6. Interim dividends**

The Board does not recommend the payment of an interim dividend in respect of the six months ended 31 May 2004 (2003: Nil).

#### **7. Related party transactions**

- (a) On 13 April 2004, Mr. Or Wai Sheun, the beneficial owner of the Ultimate Holding Company, granted the right to the Group to acquire a substantial part of Han Van San Commercial Building at Rua do Dr. Pedro Jose Lobo, Av. Do Infante D. Henrique, and Av. Doutor Mario Soares in Macao together with an independent third party through the entering of a sale and purchase agreement by a company ("Vendor") beneficially owned by him with the Group to transfer the entire interest in Success Ever Limited for the consideration of approximately HK\$63.8 million which represents the par value of the acquired share capital plus the face value of outstanding loans due from Success Ever Limited to the Vendor. The arrangement was to enable the Group to acquire, effectively, a 50% interest in such properties for a consideration of HK\$212.5 million. The acquisition was completed on 16 June 2004. Details of the acquisition are further set out in the Company's circular dated 4 May 2004.
- (b) On 13 April 2004, the Company, the Ultimate Holding Company and a company (the "Underwriter") beneficially owned by Mr. Or Wai Sheun, entered into an underwriting agreement relating to the Rights Issue. Pursuant to the underwriting agreement, an underwriting commission of HK\$1.4 million being 2% of the total subscription price of the rights shares underwritten by the Underwriter, would be payable to the Underwriter. The Ultimate Holding Company also undertook to subscribe 166,923,012 Consolidated Shares. As the Ultimate Holding Company also applied for excess rights shares, on completion of the Rights Issue, 181,363,013 Consolidated Shares were issued and allotted to the Ultimate Holding

Company. Details of the Rights Issue and the underwriting agreement are further set out in the Company's circular dated 4 May 2004.

- (c) On 24 March 2004, the Ultimate Holding Company, which is also the holder of all convertible preference shares of HK\$0.01 each ("CPS") in issue, contributed HK\$2,676,600 to the Company to pay up 148,700,000 10% partly paid CPS in full. On the same day, the Ultimate Holding Company exercised the conversion right of CPS to convert 148,700,000 fully paid CPS into 148,700,000 fully paid Shares.

#### **8. Pledge of assets**

As at 31 May 2004, certain assets of the Group with an aggregate net book value of approximately HK\$52,512,000 were pledged to secure credit facilities granted to the Group.

#### **9. Post balance sheet events**

Save for the completion of the acquisition as disclosed in note 7(a) to the financial statements and of the Rights Issue, the Group has also entered into to a sale and purchase agreement on 2 July 2004 with an independent third party for the acquisition of the 141 ordinary shares of US\$1 each in the issued share capital of Think Bright Limited, representing 70.5% of its issued capital, at a consideration of HK\$1,100, which is the par value of the shares, and a loan of HK\$14.1 million, being 70.5% of the face value of the outstanding loans due from Think Bright Limited to the independent third party as at the date of completion of the sale and purchase agreement, at the face value of the loan. Completion of the acquisition took place on 5 July 2004. Think Bright Limited directly holds a parcel of properties located at the prime and central district of Macao which comprises retail shops, office units and residential units, with a total GFA of 18,865 square metres and 263 car parking spaces, covering mainly a GFA of 15,934 square metres at China Plaza at Avenida da Praia Grande and Avenida D. Joao IV in Macao. Details of the acquisition are further set out in the Company's circular dated 9 August 2004.

## INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

### Directors and chief executives

As at 31 May 2004, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance ("SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

#### *Long positions in Consolidated Shares*

<u>Name</u>	<u>Capacity and nature of interests</u>	<u>Number of shares held</u>	<u>Percentage of the issued share capital</u>
Mr. Yeung Kwok Kwong	directly beneficially owned	600,000	0.10 %
Ms. Wong Yuk Ching	directly beneficially owned	1,000,000	0.16 %

In addition to the above, Mr. Yeung Kwok Kwong is holding shares in certain subsidiaries of the Company in a non-beneficial capacity which is solely for the purpose of complying with the minimum company membership requirements.

At no time during the six months ended 31 May 2004 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

## Other persons

As at 31 May 2004, the interests and short positions of the persons, other than the directors and chief executives, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

### *Long positions*

<u>Name</u>	<u>Capacity and nature of interests</u>	<u>Number and class of shares held</u>	<u>Percentage of such class of the issued share capital</u>
Marble King International Limited	Beneficial owner	333,846,024 Consolidated Shares	54.74%
		3,851,300,000 CPS	100.00%

On 13 April 2004, the Company, Marble King International Limited and Hantec Securities Co., Limited entered into an underwriting agreement for the Rights Issue. Pursuant to the underwriting agreement, Hantec Securities Co., Limited underwrote 138,030,609 Consolidated Shares which represents 22.63% of the issued ordinary share capital of the Company as enlarged by the Rights Issue and is deemed to have such interest as beneficial owner under the SFO during the period from 13 April 2004 to 16 June 2004, the completion date of the Rights Issue.

As Mr. Or Wai Sheun is the controlling shareholder of each of Marble King International Limited and Hantec Securities Co., Limited, he is deemed under the SFO to be interested, through controlled corporations, in the 333,846,024 Consolidated Shares and 3,851,300,000 CPS held by Marble King International Limited and the 138,030,609 Consolidated Shares underwritten by Hantec Securities Co., Limited which represent 77.37%, in aggregate, of the issued ordinary share capital of the Company as enlarged by the Rights Issue and 100% of the CPS in issue.



As the Rights Issue was over-subscribed, all the responsibilities of Hantec Securities Co., Limited under the underwriting agreement was discharged and no Consolidated Share was taken up by Hantec Securities Co., Limited upon completion of the Rights Issue on 16 June 2004. Other than the 166,923,012 Consolidated Shares undertaken to be subscribed by Marble King International Limited, Marble King International Limited also applied for excess rights shares. As a result, on completion of the Rights Issue on 16 June 2004, 181,363,013 Consolidated Shares were issued and allotted to Marble King International Limited. Since then, Marble King International Limited is interested in the 348,286,025 Consolidated Shares and 3,851,300,000 CPS which represent 57.10% of the issued ordinary share capital as enlarged by the Rights Issue and 100% of the CPS in issue and Mr. Or Wai Sheun is deemed to be interested in the 348,286,025 Consolidated Shares and 3,851,300,000 CPS held by Marble King International Limited which represent 57.10% of the issued ordinary share capital as enlarged by the Rights Issue and 100% of the CPS in issue only.

Save as disclosed above, no other person had registered an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## **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 six months ended 31 May 2004.

## **AUDIT COMMITTEE**

The audit committee has reviewed the unaudited interim financial statements of the Group for the six months ended 31 May 2004 and discussed with the Board the internal control and financial reporting matters of the Group.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the Board, 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 independent non-executive directors are not appointed for any specific term of office but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.