MEETING ALL YOUR *Healthcare Needs*

二零零四年中期報告

Interim report 2004

卓健 Quality HealthCare

卓健亞洲有限公司 Quality HealthCare Asia Limited

- Medical Care
- Chinese Medicine
- Physiotherapy
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- Health Screening
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- Reproductive Medicine
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- Nursing Services
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Quality HealthCare Asia Limited (www.qualityhealthcareasia.com) is Hong Kong's largest listed healthcare company. The Group provides care for our private and corporate contract patients through 600 Western and Chinese medical centres, and 44 dental and physiotherapy centres. In 2003, our network recorded more than 1.7 million healthcare visits. We operate eight elderly care homes and Hong Kong's longest-established international nursing service. One of our medical practices has been serving Hong Kong people for 135 years.

Quality HealthCare became the first healthcare provider listed on The Stock Exchange of Hong Kong Limited (HKSE ticker number 593) in 1998. The Group's healthcare turnover in 2003 exceeded HK$743.0 million.

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Chairman's Statement

I am pleased to report that the Group has been successful in delivering a significantly improved profit performance for the first six months of 2004. This result has been achieved through a combination of sustained effort by our frontline healthcare professionals together with our back office team combined with management's focus on our core businesses and effective cost control.

During the reporting period, the profit contribution from Quality HealthCare Medical Services (QHMS) increased by 14% and that from Quality HealthCare Services (QHS) increased by 125%. However, Quality HealthCare Elderly Services (QHES) reported an operating loss owing to the combined effects of lower occupancy rates, fierce competition affecting bed charge out rates, and the inability of families to afford the cost of beds due to reduction of Comprehensive Social Security Assistance (CSSA). Corporate and other expenses decreased by 32%, achieved through manpower restructuring and the relocation of the corporate head office to Sheung Wan to join the subsidiary operating offices.

FINANCIAL REVIEW

In the six month period ended 30 June 2004, the Group reported a turnover of HK$383.5 million, an increase of 7.4%, as compared to HK$357.0 million for the same period last year. However, net profit from ordinary activities attributable to shareholders was HK$20.1 million, an increase of 358%, as compared to HK$4.4 million in the comparative period in the prior year.

Basic earnings per share for the first half of 2004 were HK9.3 cents. An interim dividend of HK1 cent per share was declared.

The finance costs of the Group in the first six months fell significantly from approximately HK$1.1 million to approximately HK$85,000 as a result of reduction of debt.

Group bank borrowings, as at 30 June 2004, were HK$8.0 million, the same as at 31 December 2003. The Group's net cash position improved from HK$51.0 million at 31 December 2003 to HK$62.9 million at 30 June 2004. Net cashflow from operating activities increased from an inflow of HK$10.0 million for the six months ended 30 June 2003 to HK$17.8 million for the six months ended 30 June 2004.

BUSINESS REVIEW

Quality HealthCare Medical Services (QHMS)

Western Medicine, Chinese Medicine

During the period, QHMS reported a 14% increase in operating profit, whilst turnover increased by 11.7%. Turnover for the six months was approximately HK$305.3 million, compared with approximately HK$273.4 million for the corresponding period last year, but operating profit increased to approximately HK$26.5 million, from approximately HK$23.3 million in the corresponding period last year.

In the first six months of 2004, QHMS recorded an increase of 12% in healthcare visits from corporate clients and a 23% increase from private paying clients compared to the same period in 2003, demonstrating better reach in the individual consumer market.

Corporate healthcare

QHMS possesses a sound base of medical expertise, local market knowledge, and many years experience in delivering integrated healthcare services in Hong Kong. Accordingly, QHMS is able to effectively capture data and recognize trends that can influence benefit plan design. Quality HealthCare is therefore equipped to operate not only as a preferred provider but is also able to design and manage healthcare plans based on quality assurance and cost effectiveness.

Private practitioners have reduced the cost of services significantly over the last few years in line with the deflationary economy. However notwithstanding rising patient demands, increased litigation and insurance premiums and technological advances, we believe that QHMS can continue to provide quality service to corporate clients, insurers, and private patients.

Business process enhancement

Our proprietary web based processing system LEON has assisted QHMS to both electronically connect our medical centres as well as conduct over 96% of claims and billing electronically. We will continue to work with our clients in developing the paperless transaction environment. Further enhancement of our system has been underway since the beginning of 2004 to fully integrate different tiers of medical centres, with the target of improving frontline efficiency as well as achieving overall cost savings. Additional enhancement has also been initiated to expand our capacity to service third party administration contracts for corporations and insurance companies interested in outsourcing this business process.

Quality practice

Our clinical audit of Quality HealthCare medical centres was completed in May 2004 based on the audit criteria set out in the Practice Standards & Guidelines laid down by our Medical Standards Compliance Committee. The training program for frontline staff designed to enhance service standards was also conducted during this period with positive response and feedback. Clear performance indicators and service pledges have been defined from clinical/practice management, customer service, and claims & billings to deliver consistent service standards.

Growth initiatives

QHMS is developing an increased range of services and healthcare plans supported by a restructured, streamlined administration focused on cost and efficiency. The Group is now in a position to consider new initiatives, new markets and an increased business portfolio.

In the first six months, two new centres in Hong Kong Island were opened, diversifying our geographical reach. In addition, we undertook a clinic refurbishment programme designed to update existing facilities and improve the service experience for patients and staff alike. At the physician level, Quality HealthCare continues to attract good quality family physicians as well as specialists in order to further develop our vertical integration model.

The Group is making progress in increasing the number of cash paying patients as well as signing new insurance partners. Initiatives to strengthen client loyalty will be launched in the second half of 2004. Feasibility studies are now underway to extend Quality HealthCare's presence into new markets.

Chinese medicine

Quality HealthCare Chinese Medicine (QHCM) has continued to work closely with corporations and insurance companies on the delivery of Chinese Medicine services to their staff and clients. QHCM signed up an increased number of contract clients in the reporting period, changing its attendance pattern from a small percentage of contract clients to over 30% currently. To further strengthen the contract client market, QHCM will investigate suitable sites to expand its core network within the QHMS network and its geographical coverage thus providing easier access for contract clients.

Quality HealthCare Services (QHS)

Dental, Physiotherapy, Nursing Services

QHS's six-month total revenue increased by 9.6% to HK$35.7 million, from HK$32.6 million in the same period in 2003. Operating profit also rose by 125% to HK$2.42 million from HK$1.08 million in the same period in 2003.

Dental: Quality HealthCare Dental (QHD) focused on updating its Practice Manual for Dentists as advised by its own Dental Committee of Standards & Compliance. Courtesy Training Programs were arranged for nurses and receptionists.

QHD plans to increase its capacity through adding new dentists and extending some of its operating hours. In addition, clinical hours of certain specialists in demand will be increased to match clients' needs. Meanwhile, QHD will continue to identify potential locations suitable for expanding its network.

Nursing: Through a diversified mix of business activities, Quality HealthCare Nursing (QHN) has been able to deliver a stable profit despite restrictions from hospitals under the Hospital Authority since the outbreak of Severe Acute Respiratory Syndrome ("SARS") and fierce competition among agencies and bank nurses for patients in private hospitals. QHN is involved in certain areas of business which include providing ward relief and staff relief for hospitals and nursing homes respectively, conducting career workshops, and recruitment services for pharmaceutical companies and other corporations.

QHN continues to develop innovative ideas to expand its scope of services, including a pilot project with an insurance company to provide homecare services for clients thus shortening hospital stays and allowing rehabilitation to take place within the home environment with nursing support provided by QHN. This cost effective model will not only provide savings for insurers but is expected to be the preferred choice for many clients.

Physiotherapy: Quality HealthCare Physiotherapy (QHP) has focused on maximizing the efficiency of its centres through extending working hours as well as expanding its Quarry Bay centre to meet clients' demands. The Division has demonstrated a steady growth in profit for the period reported.

QHP has also devoted resources into development of a series of employee wellness programs, including occupational health and safety evaluation programs, work injury rehabilitation programs, and has worked with QHMS on developing a multi-disciplinary employee assistance program.

Quality HealthCare Elderly Services (QHES)

Trust Provider of Residential Elderly Care

The impact of SARS on the elderly care industry in 2003 carried over into the first six months of 2004. Accordingly, this has been a difficult period for QHES. Turnover for the period was HK$50.2 million, compared to HK$55.2 million for the same period last year. The Division recorded a net loss of HK$1.15 million, compared to the net profit of HK$329,000 for the same period last year.

The net loss resulted from a combined effect of the continuing impact of SARS compromising occupancy rates, the general economic circumstances, fierce competition amongst providers causing a downward effect of bed rates, and the implementation of the reduction of CSSA reducing further the affordability of home care for the elderly.

Notwithstanding the adverse environment, the QHES team has actively worked on cost control, including successfully negotiating with landlords on rental reductions. QHES has also consolidated its business through the closure of one of its homes, with the majority of the residents relocating into its other homes. Active marketing activities have been conducted and reorganization of the room mix has also been implemented.

With these measures in place and gradually taking effect, QHES is hopeful of a more positive business outlook in the second half of 2004.

PEOPLE

In February 2004, the Company awarded Long Service Awards for 18 office staff and awarded Long Service Awards and Service from the Heart Awards to 22 of our doctors. Quality HealthCare is proud of its medical heritage, and is privileged in respect of the large number of loyal and dedicated staff within the Group. One of the Company's important initiatives is to continually support staff through appropriate recognition, career development and personal growth.

OUTLOOK

Quality HealthCare continues to maintain a leading role in the private healthcare industry in Hong Kong. The Company is determined to meet the changing environment of the local healthcare market and it is our intention to maintain communication with our clients and to satisfy their needs with quality service. The Company will continue to pursue growth and the development of more customized and differentiated products tailored for existing and new clients.

Clear performance indicators have been delineated within our operating divisions to reinforce trust and service quality and to enable further growth. The Company will continue to invest in and develop systems and transaction platforms to achieve better efficiency for existing operations, scalability to service a larger market and for new business ventures regionally.

Quality HealthCare continues to support the government in its public private partnership initiatives in the healthcare sector, and looks forward to further collaboration on projects and studies in order to benefit the Hong Kong community.

Unaudited Condensed Consolidated Interim Financial Statements

The board of directors of Quality HealthCare Asia Limited (the "Company") herein presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six month period ended 30 June 2004 together with comparative amounts for the relevant corresponding period. These unaudited condensed consolidated financial statements have not been audited, but have been reviewed by the Company's auditors and Audit Committee.

Condensed Consolidated Profit and Loss Account – Unaudited

Six months ended 30 June 2004

	Notes	Six months ended 30 June 2004 HK$'000	2003 HK$'000 (Restated)
Turnover	2	383,495	357,000
Other revenue and gains		4,445	5,540
Purchases and changes in inventories of finished goods and dispensary supplies consumed+		(14,541)	(12,182)
Staff costs		(135,507)	(131,830)
Depreciation		(9,725)	(10,878)
Amortisation of goodwill		(246)	(246)
Professional fees in connection with a takeover offer	3	–	(4,759)
Corporate restructuring expenses	4	–	(4,800)
Other operating expenses		(204,191)	(188,988)
Profit from operations		23,730	8,857
Finance costs – Interest on borrowings		(85)	(1,110)
Share of results of a jointly-controlled entity		–	(446)
Profit before tax		23,645	7,301
Tax	5	(3,510)	(2,900)
Net profit from ordinary activities attributable to shareholders		20,135	4,401
Interim dividend	6	2,167	–
Earnings per share	7		
Basic		9.3 cents	2.0 cents
Diluted		9.3 cents	2.0 cents

+ Being cost of inventories sold for the period

Condensed Consolidated Balance Sheet

30 June 2004

	Notes	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
Non-current assets			
Fixed assets		36,341	40,249
Long term investments		420	420
Goodwill		8,148	8,394
Deferred tax assets		840	–
		45,749	49,063
Current assets			
Convertible note		7,000	7,000
Inventories		6,459	7,413
Accounts receivable	8	63,246	71,721
Prepayments, deposits and other receivables		26,371	28,371
Cash and bank balances		70,879	58,991
		173,955	173,496
Current liabilities			
Interest-bearing bank borrowings		8,000	8,000
Accounts payable, other payables, accruals and deposits received	9	72,143	76,097
Deferred revenue		4,234	9,446
Dividend payable		7,041	–
Tax payable		5,617	19,458
		97,035	113,001
Net current assets		76,920	60,495
Total assets less current liabilities		122,669	109,558
Non-current liabilities			
Deferred tax liabilities		1,728	1,728
		120,941	107,830
Capital and reserves			
Issued capital		21,663	21,662
Reserves		99,278	81,294
Proposed final dividend		–	4,874
		120,941	107,830

Condensed Consolidated Statement of Changes in Equity – Unaudited

Six months ended 30 June 2004

	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2003	216,343	293,094	524,063	(950,527)	10,817	93,790
Net profit for the period	–	–	–	4,401	–	4,401
Final 2002 dividend declared	–	–	–	–	(10,817)	(10,817)
At 30 June 2003	216,343	293,094	524,063	(946,126)	–	87,374
At 1 January 2004	21,662	139	–	81,155	4,874	107,830
Share options exercised	1	16	–	–	–	17
Net profit for the period	–	–	–	20,135	–	20,135
Final 2003 dividend declared	–	–	–	–	(4,874)	(4,874)
Interim 2004 dividend declared	–	–	–	(2,167)	–	(2,167)
At 30 June 2004	21,663	155	–	99,123	–	120,941

Condensed Consolidated Cash Flow Statement – Unaudited

Six months ended 30 June 2004

	Six months ended 30 June 2004 HK$'000	2003 HK$'000
Net cash inflow from operating activities	**17,842**	10,035
Net cash outflow from investing activities	**(5,971)**	(5,936)
Net cash inflow/(outflow) from financing activities	**17**	(43,521)
Net increase/(decrease) in cash and cash equivalents	**11,888**	(39,422)
Cash and cash equivalents at beginning of period	**58,991**	89,821
Cash and cash equivalents at end of period	**70,879**	50,399
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**70,879**	50,399

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2003.

2. Segmental information – Unaudited

(a) Business segments

An analysis of the Group's revenue and profit/(loss) for the six months ended 30 June 2004 by the Group's business segments is as follows:

	Medical services		Nursing, physio & dental services		Elderly care services		Corporate and others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	305,315	273,413	27,934	28,390	50,246	55,197	–	–	–	–	383,495	357,000
Intersegment revenue	1,481	1,486	7,534	3,861	2,940	61	–	–	(11,955)	(5,408)	–	–
Other revenue and gains	3,326	4,166	220	318	178	212	436	445	–	–	4,160	5,141
Total	310,122	279,065	35,688	32,569	53,364	55,470	436	445	(11,955)	(5,408)	387,655	362,141
Segment results	26,548	23,297	2,422	1,076	(1,153)	329	(4,372)	(6,439)	–	–	23,445	18,263
Unallocated interest income											285	399
Unallocated expenses											–	(9,805)
Profit from operating activities											23,730	8,857
Finance costs											(85)	(1,110)
Share of results of a jointly-controlled entity	–	(446)	–	–	–	–	–	–	–	–	–	(446)
Profit before tax											23,645	7,301
Tax											(3,510)	(2,900)
Net profit from ordinary activities attributable to shareholders											20,135	4,401

(b) Geographical segments

During the period, over 90% of the Group's revenue and results from operations were attributable to its operations in Hong Kong. Accordingly, no analysis by geographical segment is presented.

3. Professional fees in connection with a takeover offer

The professional fees were incurred in the prior period in connection with a conditional offer (the "Offer") by Anglo Chinese Corporate Finance, Limited on behalf of Caduceus Medica Limited for shares in the Company other than those held by Caduceus Medica Limited as further detailed in a response document of the Company dated 1 April 2003, and other related activities. The Offer (as revised) was lapsed on 7 May 2003.

4. Corporate restructuring expenses

The expenses were incurred in the prior period in connection with a restructuring of the corporate head office of the Group during the period, which included compensation for termination of service agreement of certain senior executives (including a director of the Company) of the Group.

5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Group:		
Current – Hong Kong profits tax charge for the period	**4,350**	2,900
Deferred	**(840)**	–
	3,510	2,900

As set out in the financial statements for the year ended 31 December 2003, the Hong Kong Inland Revenue Department was in dispute over tax issues with certain medical practices in which the Group has business interests related to prior years and had issued notices of additional assessments to the medical practices (the "Tax Disputes"). During the six months ended 30 June 2004, all the Tax Disputes were settled and the corresponding tax liabilities, which were fully provided for in the prior years, were paid during the period.

6. Interim dividend

The directors declare the payment of an interim dividend of HK1 cent (2003: Nil) per ordinary share for the six months ended 30 June 2004.

7. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK$20,135,000 (2003: HK$4,401,000), and the weighted average of 216,628,120 (2003: 216,342,885 as restated to reflect the consolidation of shares of the Company completed on 29 December 2003) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for that period of HK$20,135,000 (2003: HK$4,401,000). The weighted average number of ordinary shares used in the calculation is the 216,628,120 (2003: 216,342,885 as restated) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 420,662 (2003: 198,689 as restated) ordinary shares assumed to have been issued at no consideration on deemed exercise of all outstanding share options during the period.

8. Accounts receivable

The Group allows an average general credit period of 30 to 90 days to its business-related customers, except for certain well established customers, where the terms are extended beyond 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

An aged analysis of the Group's accounts receivable as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
Current – 90 days	62,326	71,721
91 – 180 days	538	–
181 – 360 days	261	–
Over 360 days	121	–
	63,246	71,721

9. Accounts payable, other payables, accruals and deposits received

An aged analysis of accounts payable included in accounts payable, other payables, accruals and deposits received at the balance sheet date, based on invoice date, is as follows:

	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
Accounts payable:		
Current – 90 days	21,977	20,342
91 – 180 days	465	67
181 – 360 days	72	821
Over 360 days	314	107
	22,828	21,337
Other payables, accruals and deposits received	49,315	54,760
	72,143	76,097

10. Contingent liabilities

(a) At 30 June 2004, the Group had a number of current employees who have completed the required number of years of service to the Group under the Hong Kong Employment Ordinance in order to be eligible for long service payments if their employment is terminated under certain circumstances. The Group's contingent liability in respect of possible future long service payments at that date would have been approximately HK$7,165,000 (31 December 2003: HK$7,113,000). No provision has been made in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(b) On 10 August 2004, Quality HealthCare Medical Services Limited ("QHMS") and Quality HealthCare Medical Centre Limited ("QHMC"), indirect subsidiaries of the Company, were served with a writ attaching a statement of claim by Asia Pacific Lasik Centre Limited claiming, inter alia, damages of HK$900,000 for breaches of contract on the parts of QHMS and QHMC. The case will be defended and at this early stage the directors take the view that no contingency arises for which a provision is required to be made. Legal costs will be expensed as incurred.

11. Capital commitments

At the balance sheet date, the Group did not have any significant capital commitments (31 December 2003 : Nil).

12. Operating lease arrangements

The Group leases certain of its medical centres, office premises and elderly care homes under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years and rentals are normally fixed in accordance with the respective tenancy agreements and no arrangements have been entered into for contingent rental payments.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
Within one year	**50,817**	52,700
In the second to fifth years, inclusive	**84,028**	80,523
After five years	**675**	2,127
	135,520	135,350

13. Related party transactions

The Group had the following material related party transaction during the period not disclosed elsewhere in these unaudited condensed consolidated interim financial statements or in the consolidated financial statements of the Group for the year ended 31 December 2003.

During the six months ended 30 June 2004, the Group paid approximately HK$3,279,000 (2003 : HK$1,241,000) as insurance premium to its insurance broker, Sun Hung Kai Insurance Consultants Limited ("SHKICL"), a subsidiary of Sun Hung Kai & Co. Limited, which is a substantial shareholder of the Company, based on mutually agreed terms for the premiums for the Group's insurance policies arranged by SHKICL as broker only.

14. Comparative amounts

Due to a share consolidation of every ten shares of the Company in the prior year, certain comparative amounts have been restated accordingly.

15. Approval of the unaudited condensed consolidated interim financial statements

These unaudited condensed consolidated financial statements were approved and authorised for issue by the board of directors on 2 September 2004.

Management Discussion and Analysis

1. CAPITAL STRUCTURE AND EQUITY

The Company issued 11,000 ordinary shares during the six months ended 30 June 2004 as a result of the exercise of staff share options. Apart from the aforesaid, the Company has not issued any shares or made any share repurchases during the period.

On 12 January 2004, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares held by members on the register of members on 29 December 2003 resulting in 43,324,376 warrants being issued. Each warrant entitles the holder to subscribe for one ordinary share of the Company at a subscription price of HK$2.50 per share in cash, from 14 January 2004 to 13 January 2007. No shares have been issued pursuant to the exercise of warrants.

The Group's shareholders' funds increased from HK$107.8 million to HK$120.9 million mainly as a result of profit retained for the period.

2. FINANCIAL RESOURCES & LIQUIDITY

During the period, the Group's financial position was further strengthened. Short term bank borrowings amounted to HK$8.0 million at 30 June 2004, the same as at 31 December 2003. The Group's cash and bank balances increased to approximately HK$70.9 million as at 30 June 2004 from about HK$59.0 million at 31 December 2003. Since the Group was in a net cash position, gearing ratio comparing net debt (bank borrowings net of cash and bank balances available) to equity was not applicable at 30 June 2004 and 31 December 2003.

3. CURRENCY AND FINANCIAL RISK MANAGEMENT

The Group's main operating subsidiaries are located in Hong Kong and over 90% of the Group's sales and purchases during the period were denominated in Hong Kong dollars.

All bank borrowings are denominated in Hong Kong dollars. During the period, interest was charged on a floating rate basis with reference to Hong Kong dollar prime rate and HIBOR.

Most cash and bank balances are denominated in Hong Kong dollars. Any surplus cash is placed in savings and short-term bank deposits to earn interest income.

The Group's foreign currency assets are immaterial. The Group's exposure to foreign exchange risk is minimal and as such did not have any requirement to use financial instruments for hedging purpose.

4. PLEDGE OF ASSETS

At 30 June 2004, the Group did not pledge any of its assets.

5. CONTINGENT LIABILITIES

Details regarding the contingent liabilities of the Group at 30 June 2004 are set out in note 10 to the Group's unaudited condensed consolidated interim financial statements on page 22.

6. MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the period, there has been no material acquisition or disposal of subsidiaries and associated companies by the Group.

7. MANAGEMENT AND STAFF

At 30 June 2004, the total number of employees was around 960 (at 31 December 2003: around 950). Total staff costs amounted to approximately HK$135.5 million (2003: HK$131.8 million). The staffing structure is under constant review as the shape of the Group develops. Remuneration packages are calculated at market rates, with share options offered at the discretion of the board of directors. All executive directors' remuneration and option packages must first be recommended by the Remuneration Committee which is composed of all the independent non-executive directors, namely, Messrs. Cheng Mo Chi, Moses and Ian Robert Strachan.

DIVIDEND AND BOOK CLOSE

The Board of Directors has declared an interim dividend of HK1 cent (2003: Nil) per ordinary share payable to shareholders whose names appear on the register of members of the Company on 8 October 2004.

The register of members and the register of warrantholders of the Company will be closed from 5 October 2004 to 8 October 2004, both days inclusive, during which period no transfer of shares and warrants will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms or in the case of warrantholders, all subscription forms accompanied by the relevant warrant certificates and exercise money, must be lodged with the Company's branch share registrars in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on 4 October 2004. Dividends are expected to be dispatched on 21 October 2004.

SHARE OPTIONS

From 1 September 2001, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has amended Chapter 17 "Share Option Schemes" of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In response to the amendments, the Company terminated the old share option scheme (the "Old Scheme") and then adopted a new share incentive plan (the "Share Incentive Plan") on 7 June 2002. The Old Scheme was expired on 5 July 2003 and all of the outstanding unexercised options ceased to be exercisable and were lapsed.

Pursuant to the Share Incentive Plan, the directors of the Company may, at their discretion, invite any employees, executive and non-executive directors (including independent non-executive directors), officers, advisers, consultants or such other persons from time to time to be an eligible person to whom share options will be granted as an incentive to attract and retain them for their contributions to the business development of the Group.

The following share options were outstanding under the Share Incentive Plan during the six months ended 30 June 2004:

Name or category of participant	Number of share options: Outstanding as at 1 January 2004	Exercised during the period	Cancelled/lapsed during the period	Outstanding as at 30 June 2004	Date of grant of share options	Exercise period of share options (both dates inclusive) *(Note 1)*	Exercise price of share options HK$
Directors							
Brian Damian O'Connor	200,000	–	–	200,000	16/10/2002	16/10/2003 to 15/10/2007	1.50
Wong Tai Chun, Mark	150,000	–	–	150,000	16/10/2002	16/10/2003 to 15/10/2007	1.50
Other employees							
In aggregate	1,496,500	(11,000)	(7,000)	1,478,500	16/10/2002	16/10/2003 to 15/10/2007	1.50
	1,846,500	(11,000)	(7,000)	1,828,500			

Note:

1. The vesting period of the share options under the Share Incentive Plan is from date of grant until the commencement of the exercise period.

During the period, no share options were granted under the Share Incentive Plan.

DIRECTORS' INTERESTS

As at 30 June 2004, the interests and short positions of the directors and chief executives of the Company in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules (the "Model Code") were as follows:

Name of directors	Nature of interests	Beneficial interest in shares *(Note 1)*	Beneficial interest in underlying shares *(Notes 1 & 2)*	Total interests	Approximate aggregate percentage of interests
Brian Damian O'Connor	Personal	–	200,000	200,000	0.09%
Wong Tai Chun, Mark	Personal	50,040	160,008 *(Note 3)*	210,048	0.10%

Notes:

1. Interests in the shares and underlying shares of equity derivatives are long position.

2. Details of the interests of directors and chief executives of the Company in the underlying shares of equity derivatives in respect of options granted to them pursuant to the Share Incentive Plan are stated in the above section "SHARE OPTIONS".

3. The interests include the holding of 150,000 share options and 10,008 listed physically settled warrants of the Company. The warrants were issued on 12 January 2004 and are exercisable at any time during the period from 14 January 2004 to 13 January 2007 at an exercise price of HK$2.50 per share.

Save as disclosed above, as at 30 June 2004, none of the directors and chief executive of the Company, or any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to the directors of the Company, as at 30 June 2004, the following parties had an interest 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:

Name of substantial shareholders	Number of ordinary shares held *(Note 1)*	Number of underlying shares held *(Notes 1 & 2)*	Total interests	Approximate percentage of the issued share capital	Note
Sun Hung Kai & Co. Limited ("Sun Hung Kai")	64,301,594	12,343,918	76,645,512	35.38	3
Allied Properties (H.K.) Limited ("Allied Properties")	64,301,594	12,343,918	76,645,512	35.38	4
Allied Group Limited ("Allied Group")	64,301,594	12,343,918	76,645,512	35.38	5
Lee and Lee Trust ("LL Trust")	64,301,594	12,343,918	76,645,512	35.38	6
CLSA Capital Limited ("CLSA")	34,266,666	6,853,333	41,119,999	18.98	

Name of substantial shareholders	Number of ordinary shares held *(Note 1)*	Number of underlying shares held *(Notes 1 & 2)*	Total interests	Approximate percentage of the issued share capital	Note
CLSA Research Limited ("CLSA Research")	34,266,666	6,853,333	41,119,999	18.98	7
Credit Lyonnais Securities Asia BV ("CLSABV")	34,266,666	6,853,333	41,119,999	18.98	8
Credit Lyonnais Capital Markets Asia BV ("CLCMA")	34,266,666	6,853,333	41,119,999	18.98	9
Credit Lyonnais Capital Markets International SASU ("CLCMI")	34,266,666	6,853,333	41,119,999	18.98	10
Credit Lyonnais S.A. ("Credit Lyonnais")	34,266,666	6,853,333	41,119,999	18.98	11
Credit Agricole S.A. ("Credit Agricole")	34,266,666	6,853,333	41,119,999	18.98	12
SAS Rue la Boetie ("SAS")	34,266,666	6,853,333	41,119,999	18.98	13
Arisaig Greater China Fund Limited ("Arisaig Fund")	18,483,600	3,696,720	22,180,320	10.23	
Arisaig Partners (Mauritius) Ltd ("Arisaig Mauritius")	18,483,600	3,696,720	22,180,320	10.23	14
Lindsay William Ernest Cooper	18,483,600	3,696,720	22,180,320	10.23	15

Notes:

1. The interests stated above represent long position.

2. These represent interests of listed physically settled warrants of the Company. The warrants were issued on 12 January 2004 and are exercisable at any time during the period from 14 January 2004 to 13 January 2007 at an exercise price of HK$2.50 per share.

3. The 76,645,512 shares and underlying shares were held by Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a wholly-owned subsidiary of Sun Hung Kai. Sun Hung Kai was therefore deemed to have an interest in the shares and underlying shares in which Wah Cheong was interested.

4. Through AP Jade Limited and AP Emerald Limited, direct and indirect wholly-owned subsidiaries of Allied Properties respectively, Allied Properties owned approximately 74.98% interest in the issued share capital of Sun Hung Kai and was therefore deemed to have an interest in the shares and underlying shares in which Sun Hung Kai was interested.

5. Allied Group owned approximately 74.62% interest in the issued share capital of Allied Properties and was therefore deemed to have an interest in the shares and underlying shares in which Allied Properties was interested.

6. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of LL Trust, being a discretionary trust, who together owned approximately 38.62% interest in the issued share capital of Allied Group. They were therefore deemed to have an interest in the shares and underlying shares in which Allied Group was interested.

7. The 41,119,999 shares and underlying shares were held by CLSA, a wholly-owned subsidiary of CLSA Research. CLSA Research was therefore deemed to have an interest in the shares and underlying shares in which CLSA was interested.

8. CLSABV owned 100% interest in the issued share capital of CLSA Research and was therefore deemed to have an interest in the shares and underlying shares in which CLSA Research was interested.

9. CLCMA owned approximately 65% interest in the issued share capital of CLSABV and was therefore deemed to have an interest in the shares and underlying shares in which CLSABV was interested.

10. CLCMI owned 100% interest in the issued share capital of CLCMA and was therefore deemed to have an interest in the shares and underlying shares in which CLCMA was interested.

11. Credit Lyonnais owned 100% interest in the issued share capital of CLCMI and was therefore deemed to have an interest in the shares and underlying shares in which CLCMI was interested.

12. Credit Agricole owned approximately 94.82% interest in the issued share capital of Credit Lyonnais and was therefore deemed to have an interest in the shares and underlying shares in which Credit Lyonnais was interested.

13. SAS owned approximately 51.5% interest in the issued share capital of Credit Agricole and was therefore deemed to have an interest in the shares and underlying shares in which Credit Agricole was interested.

14. The 22,180,320 shares and underlying shares were held by the Arisaig Fund. Arisaig Mauritius is the investment manager of the Arisaig Fund and is thereby deemed to have an interest in the shares and underlying shares in which Arisaig Fund is interested.

15. Mr. Lindsay William Ernest Cooper has an indirect 33% beneficial interest in Arisaig Mauritius (the investment manager of the Arisaig Fund) but is thereby deemed to have an interest in the shares and underlying shares in which Arisaig Mauritius is interested.

Save as disclosed above, as at 30 June 2004, no short position were recorded in the register required to be kept under section 336 of the SFO.

AUDIT COMMITTEE REVIEW

The Board of the Company has established an Audit Committee, which comprises the non-executive directors, namely, Messrs. Richard Owen Pyvis, Cheng Mo Chi, Moses and Ian Robert Strachan. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30 June 2004. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants. The Audit Committee has not undertaken detailed independent audit checks.

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, which specifies the best practices to be followed by all directors throughout the six months ended 30 June 2004, except that non-executive directors of the Company have no fixed terms of office, but will retire from office on a rotation basis in accordance with the Company's bye-laws.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2004.

On behalf of the Board
Arthur George Dew
Executive Chairman

Hong Kong, 2 September 2004