

# CHINA TREASURE

INTERIM REPORT **2004**



**China Treasure** (Greater China) Investments Limited  
華寶（大中華）投資有限公司

The board of directors ("Board") of China Treasure (Greater China) Investments Limited ("Company") is pleased to present the unaudited interim report of the Company for the six months ended 30 June 2004 as follows:

## CONDENSED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	NOTES	Six months ended	
		30.6.2004 (unaudited) HK\$	30.6.2003 (unaudited) HK\$
Turnover		<b>1,870,900</b>	341,204
Other operating income			
– bank interest income		<b>6,469</b>	–
Net unrealised gains (losses) on investments in listed securities		<b>5,339,000</b>	(8,711,000)
Net unrealised losses on investments in unlisted securities		<b>(4,000,000)</b>	(3,239,212)
Administrative expenses		<b>(776,055)</b>	(1,847,398)
Other operating expenses		<b>(884,097)</b>	(1,204,942)
Profit (loss) before taxation	4	<b>1,556,217</b>	(14,661,348)
Taxation	5	–	–
Net profit (loss) for the period		<b>1,556,217</b>	(14,661,348)
Earnings (loss) per share – Basic	6	<b>0.02</b>	(0.14)

**CONDENSED BALANCE SHEET**

AT 30 JUNE 2004

	<i>Note</i>	<b>30.6.2004</b> <b>(unaudited)</b> <b>HK\$</b>	31.12.2003 (audited) HK\$
Non-current assets			
Investments in securities	7	<b>4,000,000</b>	8,000,000
Current assets			
Investments in securities	7	<b>24,272,798</b>	11,240,000
Debtors, prepayments and deposits		<b>230,995</b>	80,000
Bank balances and cash		<b>18,449,968</b>	26,215,944
		<b>42,953,761</b>	37,535,944
Current liabilities			
Creditors and accrued charges		<b>52,000</b>	190,400
Net current assets		<b>42,901,761</b>	37,345,544
		<b>46,901,761</b>	45,345,544
Capital and reserves			
Share capital		<b>10,300,000</b>	10,300,000
Reserves		<b>36,601,761</b>	35,045,544
		<b>46,901,761</b>	45,345,544

**STATEMENT OF CHANGES IN EQUITY**  
 FOR THE SIX MONTHS ENDED 30 JUNE 2004

	<b>Share capital</b> <i>HK\$</i>	<b>Share premium</b> <i>HK\$</i>	<b>Accumulated (losses) profits</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
At 1 January 2003	10,300,000	85,871,636	(6,688,317)	89,483,319
Net loss for the period	—	—	(14,661,348)	(14,661,348)
At 30 June 2003	10,300,000	85,871,636	(21,349,665)	74,821,971
Net loss for the period	—	—	(29,476,427)	(29,476,427)
At 31 December 2003	10,300,000	85,871,636	(50,826,092)	45,345,544
Net profit for the period	—	—	1,556,217	1,556,217
<b>At 30 June 2004</b>	<b>10,300,000</b>	<b>85,871,636</b>	<b>(49,269,875)</b>	<b>46,901,761</b>

**CONDENSED CASH FLOW STATEMENT**  
 FOR THE SIX MONTHS ENDED 30 JUNE 2004

	<b>Six months ended</b>	
	<b>30.6.2004</b>	30.6.2003
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$</b>	HK\$
Net cash used in operating activities	<b>(7,772,445)</b>	(1,435,229)
Net cash generated from investing activities	<b>6,469</b>	–
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	<b>(7,765,976)</b>	(1,435,229)
Cash and cash equivalents at beginning of the period	<b>26,215,944</b>	1,491,126
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>18,449,968</b>	55,897
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Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>18,449,968</b>	55,897
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## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*FOR THE SIX MONTHS ENDED 30 JUNE 2004*

### **1. BASIS OF PREPARATION**

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

### **2. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2003.

### **3. SEGMENT INFORMATION**

The Company was principally engaged in investing in listed and unlisted companies in the People's Republic of China, Hong Kong, Taiwan and USA during the period.

All of the activities of the Company are based in Hong Kong and all of the Company's turnover and operating profit/loss are derived from Hong Kong.

**4. PROFIT (LOSS) BEFORE TAXATION**

	<b>Six months ended</b>	
	<b>30.6.2004</b>	30.6.2003
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$</b>	<b>HK\$</b>
Profit (loss) before taxation has been arrived at after charging:		
Operating lease payments in respect of rented premises	<b>30,000</b>	60,000
Directors' emoluments		
– Directors' fees	<b>135,945</b>	280,000
– Other emoluments		
Salaries and other benefits	–	600,000
Contributions to Mandatory Provident Fund Scheme	–	6,000
	<b>135,945</b>	886,000
Other staff costs		
– Salaries and other benefits	<b>210,000</b>	380,892
– Contributions to Mandatory Provident Fund Scheme	<b>6,000</b>	14,059
	<b>216,000</b>	394,951

## 5. TAXATION

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period.

No provision for Hong Kong Profits Tax has been made in the interim financial statements as the estimated assessable profit is wholly absorbed by tax losses brought forward. At 30 June 2004, tax losses carried forward amounted to approximately HK\$4,407,000 (30.6.2003: HK\$2,711,000).

The tax charge for the six months ended 30 June 2004 and 30 June 2003 can be reconciled to profit (loss) per the income statement as follows:

	<b>Six months ended</b>	
	<b>30.6.2004</b> <b>(unaudited)</b> <b>HK\$</b>	30.6.2003 (unaudited) HK\$
Profit (loss) before taxation	<b>1,556,217</b>	(14,661,348)
Tax at the Hong Kong Profits Tax rate of 17.5%	<b>272,338</b>	(2,565,736)
Tax effect of income not taxable for tax purpose	<b>(935,457)</b>	–
Tax effect of expenses not deductible for tax purpose	<b>700,000</b>	2,091,287
Tax effect of tax losses not recognised	–	474,449
Utilisation of tax losses previously not recognised	<b>(36,881)</b>	–
Taxation for the period	<b>–</b>	<b>–</b>

## 6. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit for the period of HK\$1,556,217 (1.1.2003 to 30.6.2003: loss of HK\$14,661,348) and on 103,000,000 (1.1.2003 to 30.6.2003: 103,000,000) ordinary shares in issue during the period.

No diluted earnings (loss) per share is presented as the Company did not have any potential ordinary shares in issue during the period.



## 7. INVESTMENTS IN SECURITIES

	<b>30.6.2004</b> <b>(unaudited)</b> <b>HK\$</b>	31.12.2003 (audited) HK\$
Equity securities:		
Listed	<b>16,579,000</b>	11,240,000
Unlisted	<b>4,000,000</b>	8,000,000
	<b>20,579,000</b>	19,240,000
Unlisted debt securities	<b>3,899,435</b>	–
Equity linked note	<b>3,794,363</b>	–
Total:		
Listed		
Hong Kong	<b>16,579,000</b>	11,240,000
Unlisted	<b>11,693,798</b>	8,000,000
	<b>28,272,798</b>	18,240,000
Market value of listed securities	<b>16,579,000</b>	11,240,000
Carrying amount analysed for reporting purposes as:		
Current	<b>24,272,798</b>	11,240,000
Non-current	<b>4,000,000</b>	8,000,000
	<b>28,272,798</b>	19,240,000

The Company has pledged investments in securities with an aggregate carrying amount of nil (31.12.2003: HK\$19,240,000) to secure general banking facilities granted to the Company.

## 8. DEFERRED TAXATION

At the reporting date, the Company has unused tax losses of approximately HK\$4,407,000 (2003: HK\$2,711,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

## 9. RELATED PARTY TRANSACTIONS

During the period, the Company paid investment management fees of HK\$815,317 (1.1.2003 to 30.6.2003: HK\$1,104,000) to China Core Capital Management Limited ("China Core"), a company which is wholly-owned by Mr. Ma Kam Fook, Robert, an executive director of the Company ("Mr. Robert Ma"). During the prior period, China Core was owned by Messrs. Chan Yan Ming, Michael, a former executive director of the Company ("Mr. Michael Chan") and Mr. Robert Ma as to 25% and 37.5% respectively. Starting from 8 October 2003, China Core is wholly-owned by Mr. Robert Ma. The fee was charged half-yearly at an agreed percentage of the net asset value of the Company at the end of the period.

During the period, Jensmart International Limited, a company which is wholly-owned by Mr. Robert Ma, performed certain administrative services (including provision of office premises) for the Company, for which a management fee of HK\$30,000 (1.1.2003 to 30.6.2003: Nil) was charged. The fee was charged at an agreed price.

During the prior period, the Company paid rental expenses for office premises of HK\$60,000 to Kinvick Limited, a company which is wholly-owned by Mr. Michael Chan. The rental expenses were charged at market price. The tenancy agreement was terminated on 31 July 2003.

## INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six-month period ended 30 June 2004 (30.6.2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review and prospect

For the six months ended 30 June 2004, the Company recorded a profit of HK\$1.6 million. Profit was mainly due to HK\$1.8 million realized profit on short-term capital market securities and HK\$5.3 million unrealized gain on listed securities after a HK\$4 million provision made on unlisted equity investment.

There is no material change of the Company's investment portfolio as at 30 June 2004 from portfolio as at 31 December 2003 except the additional HK\$7.7 million short-term investment in capital market instruments.

As 30 June 2004, 58% of Company investment portfolio (based on market price and after provision) was invested in listed securities in Hongkong, 28% was in short-term capital market securities such as bonds and equity-linked-notes (ELNs) and 14% invested in equity of unlisted companies with operation in PRC.

The share price of the listed securities rebound by 48% for the six-month period ended 30 June 2004. The rebound contributed an unrealized gain of HK\$5.3 million.

Of the two direct investments in PRC, our effective interest invested in the pharmaceutical joint venture was diluted down to 3.6% due to our non-participation of the additional shares subscription. As the joint venture was still making loss and showed no sign of substantial improvement in performance in the near future, the Company recommended making a further HK\$4 million provision for diminution in investment value in reflecting our share of net asset value in the joint venture.

For our investment in a Sino-foreign joint venture in PRC in Tianjin in developing, manufacturing, and distributing internet telephone units and value-stored calling cards in PRC, the Company still holds the view of making full provision for the investment as at 31 December 2003 as the business is commercially non-feasible from the view point of current commercial environment.

The current investment portfolio is mostly associated with start-ups and venture capital investment with higher risk. The Company should move along the direction of investing in well established direct investment projects so as to establish a more balanced portfolio with steady cash inflow.

### **Financial resources, capital commitment and contingent liability**

As at 30 June 2004, the Company has cash and bank balance of HK\$18.4 million, the management believed that the Company maintained sufficient working capital for its operation. The Company did not pledge any marketable securities for overdraft banking facility as at 30 June 2004 while the Company has pledged an overdraft banking facility up to HK\$5 million secured by the Company's marketable securities as at 30 June 2003. As at 30 June 2004, the Company had no material capital commitment and contingent liabilities.

### **Staff**

As at 30 June 2004, the Company has one employee. Total staff cost of the Company excluding directors' remuneration, paid during the period was approximately HK\$216,000. Staff remuneration packages are in line with prevailing market practice and are determined on the basis of the performance and experience of individual employee.

### **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES**

At 30 June 2004, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

<b>Name of director</b>	<b>Number of shares held for personal interests</b>	<b>Percentage of the issued share capital of the Company</b>
Mr. Joel Lazare Hohman	2,900,000	2.8%

Other than as disclosed above, none of the directors or chief executives, nor their associates, had any interests in any securities of the Company or any of its associated corporations.

## SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 8 February 2002, and revised pursuant to a resolution passed on 6 December 2002, for the primary purpose of providing incentives to directors and eligible participants (as defined in the Scheme), and will expire on 7 February 2012. Under the Scheme, the Board of Directors of the Company may grant options to directors of the Company (including non-executive directors and independent non-executive directors) and its eligible participants to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 7 days of the date of grant, upon payment of HK\$1.00 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board of Directors of the Company to each grantee at the time of making such offer, which shall not expire later than 10 years from the date of grant. The exercise price is determined by the Board of Directors of the Company at its absolute discretion and will not be less than the higher of (a) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share of the Company on the date of grant.

No option has been granted under the share option scheme since its adoption.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name of shareholder	Capacity	Notes	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Big Draw Limited	Held by controlled corporation	(1)	10,000,000	9.71%
First Deals Trading Limited	Held by controlled corporation	(2)	10,000,000	9.71%
First Win Trading Limited	Held by controlled corporation	(3)	10,000,000	9.71%
First Pink Limited	Held by controlled corporation	(4)	10,000,000	9.71%
I-Deluxe Assets Limited	Held by controlled corporation		10,000,000	9.71%
Ma Kai Chiu	Beneficial owners		8,000,000	7.77%
B & D Investments Limited	Help by controlled corporation	(5)	5,384,000	5.23%

Notes:

- (1) Mr. Lo Wai Leung is the director of Big Draw Limited.
- (2) Mr. Yu Ho Wing is the director of First Deals Trading Limited.
- (3) Mr. Yip Wai Leung, Jerry is the director of First Win Trading Limited.
- (4) Mr. Chan Tak Hung is the director of First Pink Limited; and
- (5) B & D Investments Limited is beneficially owned by Mr. Ng Bing Sun, Benson.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2004, the Company did not purchase, sell or redeem any of the Company's listed securities.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed the internal control and financial reporting matters including a review of the unaudited consolidated interim results for the six months ended 30 June 2004.

## CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

On behalf of the Board  
**Ma Kam Fook, Robert**  
*Executive Director*

Hong Kong, 8 September 2004