



K.P.I. COMPANY LIMITED

Interim Report 2004



## CONTENTS

	Page
Condensed Consolidated Profit and Loss Account	2
Condensed Consolidated Balance Sheet	3
Condensed Consolidated Statement of Changes in Equity	4
Condensed Consolidated Cash Flow Statement	5
Notes to the Condensed Financial Statements	6-11
Management Discussion and Analysis	
Business Review	12-15
Capital Structure, Liquidity and Financial Resources	15
Material Acquisitions and Disposals	15
Employee Information	15
Directors' Interests in Share Capital	16-17
Share Option Scheme	17-18
Interests of Substantial Shareholders	18-19
Purchase, Sale or Redemption of the Company's Listed Securities	20
Code of Best Practice	20
Audit Committee	20

The Board of Directors (the "Board") of K.P.I. Company Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with the comparative figures for the six months ended 30 June 2003 as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
	Note		
TURNOVER	2	<b>106,228</b>	236,791
Cost of sales		<b>(103,855)</b>	(233,618)
Gross profit		<b>2,373</b>	3,173
Other revenue		<b>1,184</b>	1,037
Administrative expenses		<b>(6,727)</b>	(6,178)
LOSS FROM OPERATING ACTIVITIES	3	<b>(3,170)</b>	(1,968)
Finance costs		<b>(9)</b>	(53)
Gain on disposal of interest in a jointly-controlled entity		<b>5,259</b>	—
Impairment loss of an associate		—	(4,139)
Share of result of jointly-controlled entities		<b>1,250</b>	(563)
PROFIT/(LOSS) BEFORE TAXATION		<b>3,330</b>	(6,723)
Taxation	4	<b>(91)</b>	—
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>3,239</b>	(6,723)
EARNINGS/(LOSS) PER SHARE			
— Basic	6	<b>HK0.48 cents</b>	HK(1.00) cents
— Diluted	6	<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
	<i>Note</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>4,545</b>	5,348
Investment property		<b>7,900</b>	7,900
Interests in jointly-controlled entities		<b>37,397</b>	30,979
Goodwill		<b>1,978</b>	2,261
Long term unlisted investment		<b>773</b>	773
Golf club memberships		<b>2,518</b>	2,210
		<b>55,111</b>	49,471
<b>CURRENT ASSETS</b>			
Marketable securities		<b>4,204</b>	2,649
Inventories		<b>16</b>	92
Trade and bills receivables	8	<b>95,875</b>	58,839
Other receivables, deposits and prepayments		<b>16,197</b>	6,664
Pledged time deposits		<b>36,462</b>	36,267
Cash and cash equivalents		<b>63,383</b>	55,187
		<b>216,137</b>	159,698
<b>CURRENT LIABILITIES</b>			
Tax payable		<b>1,255</b>	1,255
Trade and bills payable	9	<b>82,653</b>	47,435
Other payables and accruals		<b>35,367</b>	11,745
		<b>119,275</b>	60,435
<b>NET CURRENT ASSETS</b>			
		<b>96,862</b>	99,263
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>151,973</b>	148,734
<b>CAPITAL AND RESERVES</b>			
Share capital	10	<b>67,725</b>	67,725
Reserves		<b>84,248</b>	81,009
		<b>151,973</b>	148,734

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve	Statutory			Accumulated losses	Total
				Public welfare reserve	Exchange fluctuation reserve	Statutory surplus reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31/12/2003	67,725	108,663	30,652	173	2,613	205	(61,297)	148,734
Profit for the period	—	—	—	—	—	—	3,239	3,239
<b>At 30/6/2004</b>	<b>67,725</b>	<b>108,663</b>	<b>30,652</b>	<b>173</b>	<b>2,613</b>	<b>205</b>	<b>(58,058)</b>	<b>151,973</b>
At 31/12/2002	56,443	108,663	67,655	173	2,613	204	(71,633)	164,118
Issue of new shares	11,282	—	—	—	—	—	—	11,282
Loss for the period	—	—	—	—	—	—	(6,723)	(6,723)
At 30/6/2003	67,725	108,663	67,655	173	2,613	204	(78,356)	168,677

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash inflow/(outflow) from operating activities	<b>9,398</b>	(5,873)
Net cash inflow/(outflow) from investing activities	<b>(1,007)</b>	7,780
Net cash inflow/(outflow) from financing activities	<b>(195)</b>	11,282
Increase in cash and cash equivalents	<b>8,196</b>	13,189
Cash and cash equivalents at 1 January	<b>55,187</b>	51,901
Cash and cash equivalents at 30 June	<b>63,383</b>	65,090
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>28,178</b>	2,535
Time deposits	<b>35,205</b>	62,555
	<b>63,383</b>	65,090

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Principal accounting policies

The unaudited interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties, club memberships and marketable securities. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

### 2. Segmental information

The Group is principally engaged in the trading of chemical fertilizers and property investment. An analysis of the Group's turnover and contribution to loss from operating activities by business and geographical segments respectively are as follows:

	Turnover		Contribution to loss from operating activities	
	Six months ended 30 June			
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
<b>BUSINESS SEGMENTS</b>				
Trading of chemical fertilizers	105,941	236,479	1,687	2,326
Property investment	153	312	124	282
Corporate and others	134	—	(6,167)	(5,242)
	<u>106,228</u>	<u>236,791</u>	<u>(4,356)</u>	<u>(2,634)</u>
Interest income and unallocated gains			1,186	666
Loss from operating activities			<u>(3,170)</u>	<u>(1,968)</u>
<b>GEOGRAPHICAL SEGMENTS</b>				
Hong Kong	273	312	(6,011)	(5,137)
PRC	105,955	236,479	1,655	2,503
	<u>106,228</u>	<u>236,791</u>	<u>(4,356)</u>	<u>(2,634)</u>
Interest income and unallocated gains			1,186	666
Loss from operating activities			<u>(3,170)</u>	<u>(1,968)</u>

### 3. Loss from operating activities

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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation	<b>268</b>	194
Amortisation of goodwill	<b>283</b>	—
Operation lease rentals in respect of land & buildings	<b>862</b>	1,289
Gain on disposal of marketable securities	<b>(856)</b>	(176)
Gain on disposal of fixed assets	—	(39)
Interest income	<b>(258)</b>	(543)
Dividend income from marketable securities	<b>(11)</b>	(73)
	<b>—————</b>	<b>—————</b>

### 4. Taxation

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Current Taxation		
Hong Kong profits tax	—	—
Share of PRC tax attributable to a jointly-controlled entity	<b>91</b>	—
	<b>—————</b>	<b>—————</b>
Tax charge for the period	<b>91</b>	—
	<b>—————</b>	<b>—————</b>

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the period (2003: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, practices and interpretations thereof.

No provision for deferred taxation has been made as the Company and its subsidiaries had no significant unprovided timing differences at each of the balance sheet dates.



#### 5. Interim dividend

The Directors do not recommend the payment of any interim dividend for the six months period ended 30 June 2004 (2003: Nil).

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

The calculation of basic earnings per share for the period is based on the net profit attributable to shareholders of HK\$3,239,000, (2003: net loss of HK\$6,723,000) and to the weighted average of 677,251,557 shares (2003: 674,135,037 shares) in issue during the period.

No diluted earnings per share for the period ended 30 June 2004 has been presented because the Company's share options did not have a dilutive effect during the period.

#### 7. Post balance sheet event

Pursuant to a resolution passed at a Board meeting of the Company held on 27 April 2004, 338,625,779 new shares of HK\$0.10 each were issued by way of rights issue ("Rights Issue") at an issue price of HK\$0.10 per share to the then existing shareholders, in the proportion of one rights share for every two shares then held. The net proceeds of the Rights Issue of approximately HK\$25 million are to be used for the future investment purpose relating to hypermarket stores operations expansion and the remaining balance is used for the Group's general working capital.

#### 8. Trade and bills receivables

The ageing analysis of trade and bills receivables is as follows:

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Outstanding balances with ages		
Current	<b>24,506</b>	128
1 to 3 months overdue	<b>44,278</b>	58,687
More than 3 months overdue but less than 12 months overdue	<b>27,091</b>	—
Overdue more than 1 year	—	24
	<b>95,875</b>	58,839

## 9. Trade and Bills Payables

The aging of the Group's trade and bills payable is analysed as follows:

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Outstanding balances with ages:		
Due within 1 month or on demand	<b>23,680</b>	13
Due after 1 month but within 3 months	<b>43,583</b>	47,281
Due after 3 months but within 6 months	<b>15,390</b>	141
	<b><u>82,653</u></b>	<u>47,435</u>

## 10. Share Capital

	30 June 2004 (Unaudited)		31 December 2003 (Audited)	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised				
Ordinary share of HK\$0.10 each	<b><u>2,000,000,000</u></b>	<u>200,000</u>	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid				
Ordinary share of HK\$0.10 each	<b><u>677,251,557</u></b>	<u>67,725</u>	<u>677,251,557</u>	<u>67,725</u>

## 11. Operating lease arrangements

### (a) As lessor

The Group leases its investment property and golf club membership under operating lease arrangements, with leases negotiated for terms ranging from one year for investment property and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Within one year	<b>107</b>	213
In the second to fifth years, inclusive	<b>4</b>	14
	<b>111</b>	227

**(b) As lessee**

The Group leases certain of its office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for director's quarter for a term of 2 years.

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

	<b>30 June 2004 (Unaudited) HK\$'000</b>	31 December 2003 (Audited) HK\$'000
Within one year	<b>1,625</b>	1,748
In the second to fifth years, inclusive	<b>1,300</b>	1,170
After the fifth years	<b>46</b>	55
	<b>2,971</b>	2,973

**12. Related party transactions**

		<b>Six months ended 30 June</b>	
		<b>2004</b>	2003
		<b>(Unaudited)</b>	(Unaudited)
<i>Notes</i>		<b>HK\$'000</b>	<i>HK\$'000</i>
Rental expenses to company controlled by directors	<i>(i)</i>	<b>498</b>	498
Rental income from a jointly-controlled entity	<i>(ii)</i>	<b>78</b>	120

*Notes:*

- (i) Rental expenses for directors was paid to a company controlled by them. The monthly rental of HK\$83,000 was calculated by reference to open market rental.
- (ii) Rental income was received from a jointly-controlled entity. The monthly rental was mutually agreed by both parties.

**13. Approval of the interim financial report**

The condensed interim financial statements were approved and authorised for issue by the Board of the Company on 9 September 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

In view of the abrupt changes in the market environment of industries with mass trade volume in the PRC since the end of the 20th century, the Company has come to bolster its determination and measures to re-align its core businesses. Based on its previous businesses as well as the relationship and network built with the governments, the Company gradually confirmed the general direction of core business re-alignment towards retailing and modern logistics businesses. On the other hand, the Company will aggressively leverage on the experiences and wisdom from its many years' involvement in the PRC to engage in unexplored restructuring, acquisition and mergers opportunities in respect of state-owned enterprises with outstanding quality. At the moment, we are pleased to inform our Shareholders that remarkable results are seen in the Company's business re-alignment efforts and it is projected that our devoted efforts made in the past few years will soon bear fruit with China's accession into WTO and the launch of the CEPA policy.

In the first half of 2004, we have made concrete efforts with the Company's management team for the meticulous preparation of the results forthcoming, including:

1. Major changes to the Company's internal management and organization structure, recruitment of proficient staff knowledgeable in the PRC market, policies and laws. For instance, we have established a task force in Beijing to focus on project investments and management works, with the view to structure a strategic development department. This task force is set up for project selection, valuation, management restructuring and reformation, and is capable of conducting in-depth strategic-planning and providing consultation and guidance relating to enterprise investments. Certain young but outstanding professionals were recruited. At the same time, we have also strengthened the financial management in the Hong Kong headquarter and reinforced the cooperation with key international investment partners in order to step up the cooperation with a number of key international investment funds and banks.

2. Taking advantage of the new policies and legal environment after the PRC's accession into the WTO and implementation of CEPA that spell the relaxation of restrictions on the investment of foreign and Hong Kong capitals in certain industries such as retailing, the Company is currently streamlining its existing investment under the assistance of professional consultancies in the PRC. It is also arranging to increase its interests and controlling power in each successful project as permitted by the PRC laws and execute the related legal and registration procedures pursuant to the government requirements. Once completed, these efforts will improve the business results and financial performance of the Company before long.
3. With the further relaxation of the foreign direct investment policy in the PRC, and coupled with the support from certain outstanding international enterprises, the Company is undergoing aggressive negotiation for the introduction of additional experience strategic partners to boost its business development and operation performance in the PRC.
4. At the same time, the Company takes advantage on its cooperation and relationship with certain local governments and state-owned enterprises over the years to explore investment opportunities in the auxiliary businesses along the retailing chain. The objective of this is to secure more quality and fair-priced shop spaces, retail-business network points, upstream retailing supply chain and logistics auxiliary businesses. These resources will enable the retailing business of the Company to establish unique and favorable competitive advantages.

#### Retail Operation

As mentioned in our previous reports, the Company's retailing business focuses on chain hyper-markets and chain convenience-store operation in the eastern, northern and north-eastern PRC. Currently, the Company has established more than 80 stores that are operated and managed by independent professional management teams on an individual basis. These stores occupy leading positions in the respective local markets and recorded a net turnover of approximately RMB830 million in the first half of the year. Currently, all of such retailing

operations are held by the Group under jointly-controlled entities. The turnover of these retailing operations cannot be reflected in the consolidated income statement of the Group in accordance with accounting principles generally accepted in Hong Kong. As a result, the remarkable potential of the Group is unfortunately unnoticed and neglected by the investors in the Hong Kong stock market. However, the Company is actively corresponding with the counter-part business partners and the relevant government departments in the PRC to seek for a further increase in the investment scale and shareholding proportion in its retailing investments as permitted by the new foreign investment policies and laws. Related works are in progress and conform to the legal requirements in the PRC. It is expected that actual progress will be realized in the near future.

During the period under review, a jointly-controlled entity of the Group had disposed 10% interest in 華聯集團吉買盛購物中心有限公司. This disposal contributed approximately HK\$5.3 million to the Group's net profit. Furthermore, this is an excellent example of introduction to the Group a strategic investment partner who is more experienced and eminent in the retail industry. The successful introduction of such a partner means realization of the project value of the Group's past investments. On the other hand, it can improve the competitiveness and eventually the profitability of the Group's retailing business in a practical way.

Moreover, the Company has commenced investments and acquisitions of outstanding state-owned famous brand name food production and distribution enterprises with long history in the PRC, with the objective of accelerating the development of a competitive and strong core business in 1 to 3 years in order to improve the overall financial performance of the Company in essence.

#### Trading Business

During the period under review, revenue from the trading of chemical fertilizer was approximately HK\$106 million, decrease from approximately HK\$236 million of the same period last year. The trading of chemical fertilizer contributed approximately HK\$1.7 million (2003: HK\$2.3 million) to the Group's net profit. In view of the competitive market, the management of the Group is not planning for any drastic expansion in chemical fertilizer business. The Group has adopted a

selective approach in trading business by ensuring that these transaction will meet the minimum profit criteria in order to reduce the risk exposure in the competitive environment.

### **Capital Structure, Liquidity and Financial Resources**

As at 30 June 2004, the Group held cash and bank balances of approximately HK\$100 million with bank borrowings of HK\$82 million and available facilities of approximately HK\$74 million. Approximately HK\$44 million of the Group's assets was pledged to secure the bank borrowings and general banking facilities. The Group's bank borrowings are made in Hong Kong dollars and US dollars. The Group maintained a very low level of debts and a high liquidity. As at 30 June 2004, the Group had a current ratio of approximately 1.8 (31 December 2003: 2.6) and zero gearing ratio (31 December 2003: Nil) (defined as long term bank borrowings over shareholder's equity). As the Group's transactions are mostly settled by Hong Kong dollars or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purpose is considered necessary. As at 30 June 2004, trade finance facilities for the Group amounted to approximately HK\$156 million. Based on the Group's present capital base, the bank balances, pledged bank deposits and banking facilities available, the Board believed that the Group has sufficient working capital for its present requirements and developments. The Group has no contingent liabilities as at 30 June 2004.

### **Material Acquisitions and Disposals**

Pursuant to a sale and purchase agreement and a supplementary agreement dated 1 September 2003 and 25 November 2003 respectively, a jointly-controlled entity of the Group disposed 10% ownership interest in 華聯集團吉買盛購物中心有限公司 at a consideration of RMB20 million. The transaction was completed on 16 January 2004. The aforesaid jointly-controlled entity still holds 40% interest in 華聯集團吉買盛購物中心有限公司 thereafter.

During the period under review, there was no other material acquisition or disposal of any subsidiary, associate or joint venture of the Group.

### **Employee Information**

As at 30 June 2004, the Group had 21 employees. The policy of employee remuneration, bonus and share option scheme are commensurate with performance and comparable to market rate. Total staff costs for the reporting period amounted to approximately HK\$3 million.



## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2004, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

### *Long positions in shares of the Company*

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of ordinary shares interested</b>	<b>Percentage of issued share capital</b>
Cheung Siu Lam	Beneficial owner of 526,559,779 shares, family interest of 882,000 shares (Note 1) and interest of controlled corporation in 86,400,000 shares (Note 2)	613,841,779 (Note 3)	60.42%
Lo Wan	Beneficial owner of 882,000 shares and family interest of 612,959,779 shares (Note 4)	613,841,779 (Note 3)	60.42%
Yu Hei Wung, Raymond	Beneficial owner	300,000	0.03%

Notes: 1. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 882,000 shares held by Lo Wan.

2. Arbalice is beneficially owned as to 60% by Cheung Siu Lam, 27.5% by Lo Wan and 12.5% by Zhang Wei. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 86,400,000 shares held by Arbalice.

3. Pursuant to Cheung Siu Lam's undertaking and underwriting commitments under the Underwriting Agreement dated 27 April 2004, Cheung Siu Lam is interested and Lo Wan is deemed to be interested in 338,625,779 rights shares, representing 50% of the existing issued share capital of the Company by virtue of the SFO.
4. By virtue of the SFO, Lo Wan is deemed to be interested in 612,959,779 Shares held by Cheung Siu Lam, including 526,559,779 shares held by Cheung Siu Lam as a beneficial owner and 86,400,000 shares held by Cheung Siu Lam through a controlled corporation.

Save as disclosed above, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of the SFO as at 30 June 2004.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Old Scheme") for the purpose of providing incentives and reward to eligible participants who contribute to the success of the Group's operation on 19 March 1993. The Old Scheme expired on 19 March 2003.

Details of the share options granted under the Old Scheme and remain outstanding as at 30 June 2004 are as follows:

	Options held at 1 January 2004	Options granted during the period	Options exercised during the period	Options held at 30 June 2004	Exercise price (Note) HK\$	Grant date	Exercisable from	Exercisable until
Continuous contract employees	1,000,000	—	—	1,000,000	0.218	8 July 1999	8 Jan 2000	7 July 2004

Notes:

- (1) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (2) A total of 38,000,000 share options granted under the Old Scheme previously held by Cheung Siu Lam, Chan Yuk Ming and Lo Wan expired on 17 May 2004.

The Company adopted a new share option scheme (the “New Scheme”) on 7 June 2004 in compliance with the amendment of the Listing Rules. No share options were granted under the New Scheme as at 30 June 2004 and the date of this report.

The financial impact of share options granted is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

#### **Directors’ rights to acquire shares**

Save as disclosed under the headings “Directors’ interests in share capital” and “Share option scheme” above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

#### **INTERESTS OF SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2004, the following company/persons were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of the SFO.

<b>Name</b>	<b>Capacity</b>	<b>Number of ordinary shares interested</b>	<b>Percentage of issued share capital</b>
Cheung Siu Lam	Beneficial owner of 526,559,779 shares, family interest of 882,000 shares and interest of controlled corporation in 86,400,000 shares	613,841,779	60.42%
Lo Wan	Beneficial owner of 882,000 shares and family interest of 612,959,779 shares	613,841,779	60.42%
Arbalice Holdings Limited ( <i>Note</i> )	Beneficial owner	86,400,000	8.50%
Cheung Choi Chuen	Beneficial owner	89,158,000	8.78%

*Note:* The above interest in the name of Arbalice Holdings Limited was also disclosed as interests of Cheung Siu Lam in the section of "Directors' interests in share capital".

Save as disclosed above, no person, other than the Directors whose interests are set out in the above section headed "Directors' interests in share capital", had registered an interest or a short position in the shares and underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

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

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

## **CODE OF BEST PRACTICE**

The Board of Directors confirmed that for the six months ended 30 June 2004, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## **AUDIT COMMITTEE**

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company set up an audit committee (the "Committee"), for the purpose of reviewing and providing supervision on the financial reporting process and internal control of the Group. The Committee comprises of three independent non-executive directors. This unaudited interim report for the six months ended 30 June 2004 as well as accounting principles and practices have been reviewed by the Committee.

On behalf of the Board

**Cheung Siu Lam**

*Chairman*

Hong Kong, 9 September 2004