

INTERIM RESULTS

The Board of Directors of Multifield International Holdings Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 (the “period”), together with the unaudited comparative figures as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the six months ended 30 June	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
TURNOVER	2	196,132	60,660
Cost of sales		(124,585)	(11,893)
Gross profit		71,547	48,767
Other revenue and gains	2	21,789	3,684
Administrative expenses		(27,440)	(9,258)
Other operating expenses, net		(6,907)	(154)
PROFIT FROM OPERATING ACTIVITIES	4	58,989	43,039
Finance costs		(9,257)	(11,658)
Share of losses of associates		—	(803)
Negative goodwill on acquisition of interest in an associate recognised as income		—	3,945
PROFIT BEFORE TAX		49,732	34,523
Tax	5	(1,446)	1,472
PROFIT BEFORE MINORITY INTERESTS		48,286	35,995
Minority interests		(17,466)	(10,500)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		30,820	25,495
INTERIM DIVIDEND PER SHARE	6	0.15 cent	0.15 cent
BASIC EARNINGS PER SHARE	7	0.77 cent	0.64 cent

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

(With comparatives as at 31 December 2003)

	<i>Notes</i>	As at 30 June 2004 <i>(Unaudited)</i> HK\$'000	As at 31 December 2003 <i>(Audited)</i> HK\$'000
NON-CURRENT ASSETS			
Fixed assets		15,860	17,405
Investment properties		2,281,800	2,292,400
Long term investments		15,930	330
Goodwill:			
Goodwill		1,114	1,347
Negative goodwill		(87,856)	(95,624)
		<u>2,226,848</u>	<u>2,215,858</u>
CURRENT ASSETS			
Properties held for sale		281,851	281,851
Prepayment, deposits and other receivables		25,001	15,613
Short term investment		74,645	46,241
Tax recoverable		551	181
Accounts and bills receivables	8	84,492	81,420
Inventories		1,874	2,136
Pledged deposits	9	2,952	7,800
Cash and cash equivalents	9	96,333	130,703
		<u>567,699</u>	<u>565,945</u>
CURRENT LIABILITIES			
Deposits received		26,480	28,199
Bank loans, secured		74,485	93,843
Accounts and bills payables	10	73,359	63,959
Dividend payable		12,002	—
Accrued expenses and other payables		65,239	48,285
Due to a minority shareholder	11	—	58,187
Tax payable		98,638	98,125
		<u>350,203</u>	<u>390,598</u>
NET CURRENT ASSETS		<u>217,496</u>	<u>175,347</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,444,344</u>	<u>2,391,205</u>
NON-CURRENT LIABILITIES			
Bank loans, secured		566,286	588,653
Due to a director	11	125,392	131,626
Deferred tax liabilities		389,045	389,045
		<u>1,080,723</u>	<u>1,109,324</u>
		<u><u>1,363,621</u></u>	<u><u>1,281,881</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

(With comparatives as at 31 December 2003)

		As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
CAPITAL AND RESERVES			
Issued capital	12	40,005	40,005
Reserves		689,775	665,226
Proposed dividend		6,271	12,002
		<hr/>	<hr/>
		736,051	717,233
MINORITY INTERESTS		627,570	564,648
		<hr/>	<hr/>
		1,363,621	1,281,881
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004	2003
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	HK\$'000	HK\$'000
At beginning of the period		
- as previously reported	717,233	862,691
- prior year adjustment on adoption of SSAP 12 (Revised)	—	(228,977)
- as restated	717,233	633,714
Net profit for the period	30,820	25,495
Dividend declared	(12,002)	(10,001)
Exchange realignment	—	97
	<u>736,051</u>	<u>649,305</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	57,488	24,899
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(21,911)	(331,257)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(69,947)	366,339
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(34,370)	59,981
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	130,703	174,965
CASH AND CASH EQUIVALENTS AT END OF PERIOD	96,333	234,946
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
CASH AND BANK BALANCE	66,560	194,722
NON-PLEDGED TIME DEPOSITS WITH ORIGINAL MATURITY OF LESS THAN THREE MONTHS WHEN ACQUIRED	29,773	40,224
	96,333	234,946

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 STATEMENT OF COMPLIANCE AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 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 (“Listing Rules of the Stock Exchange”).

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

2 TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the aggregate of the invoiced value of goods sold, after allowance for returns and trade discounts, and the total amounts received and receivable from the provision of service apartment and property management services and rental income, net of PRC business taxes, from property letting, after the elimination of all significant intra-group transactions.

An analysis of turnover, other revenue and gains is as follows:

	For the six months ended 30 June	
	2004	2003
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Rental income from property letting	79,690	57,277
Service apartment and property management	1,782	3,383
Gain on disposal of investment properties	1,863	—
Trading of steel	106,149	—
Manufacturing and trading of electronic products	6,648	—
	<u>196,132</u>	<u>60,660</u>
Other revenue and gains		
Interest income	678	715
Gain on disposal of short term listed investments	4,641	—
Gain on disposal of fixed assets	5,874	—
Negative goodwill recognised as income	7,768	—
Dividend income from listed investment	966	—
Others	1,862	2,969
	<u>21,789</u>	<u>3,684</u>

3 SEGMENT INFORMATION

The analysis of the geographical segments and business segments of the operation of the Group during the period is as follows:

(a) Geographical segments

	Hong Kong		Elsewhere in the PRC		Thailand		Corporate and others		Consolidated	
	For the six months ended 30 June									
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customer	24,502	15,987	65,480	44,673	106,149	—	1	—	196,132	60,660
Segment results	6,893	8,112	35,612	34,212	2,606	—	(1,004)	—	44,107	42,324
Other revenue and gains									21,789	715
Unallocated expenses									(6,907)	—
Profit from operating activities									58,989	43,039
Finance costs									(9,257)	(11,658)
Share of losses of associates									—	(803)
Negative goodwill on acquisition of interest in an associate recognised as income									—	3,945
Profit before tax									49,732	34,523
Tax									(1,446)	1,472
Profit before minority interests									48,286	35,995
Minority interests									(17,466)	(10,500)
Net profit from ordinary activities attributable to shareholders									30,820	25,495

(b) Business segments

	Property Investment		Provision of serviced apartment and property management services		Steel trading		Electronic products		Corporate and others		Consolidated	
	For the six months ended 30 June											
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	81,553	57,277	1,782	3,383	106,149	—	6,648	—	—	—	196,132	60,660
Segment result	49,941	46,586	(3,631)	(3,507)	2,606	—	179	—	(4,988)	(755)	44,107	42,324

4 PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2004 (<i>unaudited</i>) HK\$'000	2003 (<i>unaudited</i>) HK\$'000
Depreciation	1,265	207
Staff costs (including those of directors):		
Wages and salaries	4,766	4,307
Gross rental income	(79,690)	(57,277)
Less: Outgoings	21,133	9,538
Net rental income	(58,557)	(47,739)
Interest income	(678)	(715)
Net exchange (gain)/loss	(123)	158

5 TAX

	For the six months ended 30 June	
	2004 (<i>unaudited</i>) HK\$'000	2003 (<i>unaudited</i>) HK\$'000
Group:		
Provision for the period:		
People's Republic of China and Hong Kong	(1,776)	(2,778)
Overprovision in prior years	330	4,500
	(1,446)	1,722
Deferred tax		
Provision for the period	—	(250)
Tax (charge)/credit for the period	(1,446)	1,472

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) of the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere in the People's Republic of China have been calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

6 INTERIM DIVIDEND PER SHARE

The Board of Directors has resolved to distribute an interim dividend of 0.15 HK cent (2003: 0.15 HK cent) per ordinary share to the shareholders whose names appear on the Register of Members of the Company on 12 November 2004. The interim dividend will be distributed to the shareholders on 19 November 2004.

7 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$30,820,000 (2003: net profit of HK\$25,495,000) and the weighted average of 4,000,526,323 (2003: 4,000,526,323) shares in issue during the period under review.

Diluted earnings per share for the six months ended 30 June 2004 and 2003 have not been presented as no diluting events existed for both years.

8 ACCOUNTS AND BILLS RECEIVABLES

	As at 30 June 2004 <i>(Unaudited)</i> <i>HK\$'000</i>	As at 31 December 2003 <i>(Audited)</i> <i>HK\$'000</i>
Accounts receivables	8,277	59,594
Bills receivables	76,430	22,041
Provision for bad debts	(215)	(215)
	<u>84,492</u>	<u>81,420</u>

An aged analysis of accounts receivables is as follows:

	As at 30 June 2004 <i>(Unaudited)</i> <i>HK\$'000</i>	As at 31 December 2003 <i>(Audited)</i> <i>HK\$'000</i>
Aged:		
1 - 3 months	6,194	58,629
4 - 6 months	417	141
Over 6 months	1,451	609
	<u>8,062</u>	<u>59,379</u>

An aged analysis of bills receivables is as follows:

	As at 30 June 2004 <i>(Unaudited)</i> <i>HK\$'000</i>	As at 31 December 2003 <i>(Audited)</i> <i>HK\$'000</i>
Aged:		
1 - 3 months	76,430	22,041

For the Group's property rental business, the tenants are usually required to settle the rental payments on the first day of the rental period, and are required to pay rental deposits with amounts ranging from two to three months' rental in order to secure any default in their rental payments.

The Group's trading terms with steel customers are mainly on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

9 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2004 <i>(Unaudited)</i> HK\$'000	As at 31 December 2003 <i>(Audited)</i> HK\$'000
Cash and bank balances	66,560	118,054
Time deposits	29,773	12,649
	<u>96,333</u>	<u>130,703</u>
Pledged deposits	2,952	7,800
	<u>99,285</u>	<u>138,503</u>

10 ACCOUNTS AND BILLS PAYABLES

	As at 30 June 2004 <i>(Unaudited)</i> HK\$'000	As at 31 December 2003 <i>(Audited)</i> HK\$'000
Accounts payables	3,004	10,509
Bills payables	70,355	53,450
	<u>73,359</u>	<u>63,959</u>

An aged analysis of accounts payables at the balance sheet date is as follows:

	As at 30 June 2004 <i>(Unaudited)</i> HK\$'000	As at 31 December 2003 <i>(Audited)</i> HK\$'000
1 - 3 months	1,399	7,995
4 - 6 months	963	463
Over 6 months	642	2,051
	<u>3,004</u>	<u>10,509</u>

An aged analysis of bills payables is as follows:

	As at 30 June 2004 <i>(Unaudited)</i> HK\$'000	As at 31 December 2003 <i>(Audited)</i> HK\$'000
1 - 3 months	70,355	53,450

11 DUE TO A DIRECTOR / MINORITY SHAREHOLDER

The amount due to a director is unsecured, interest-free and is not repayable within one year. The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

12 SHARE CAPITAL

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Authorised:		
50,000,000,000 (2003: 50,000,000,000) shares of HK\$0.01 (2003: HK\$0.01 each) each	500,000	500,000
Issued and fully paid:		
4,000,526,323 (2003: 4,000,526,323) shares of HK\$0.01 (2003: HK\$0.01 each) each	40,005	40,005

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, other employees, adviser, consultant, agent, contractor, client or customer, or supplier of any member of the Group. The Scheme became effective on 27 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of securities available for issue under the Scheme is 400,052,632, which is equivalent to 10% of the issued share capital of the Company as at the date of annual report. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 5 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the board of directors, but may not be less than the higher of (i) the nominal value of the shares; (ii) the Stock Exchange closing price of the Company's shares on the date at offer of the share options and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options have been granted, exercised, lapsed or cancelled since the establishment of the Scheme.

12 SHARE CAPITAL (continued)

The following share options of Oriental Explorer Holdings Limited, a subsidiary of the Company, were outstanding during the period:

Name Category of participant	Date of grant of share options	Exercise price of share options HK\$	Number of share options				At 30 June 2004	Exercise period of share options
			At 1 January 2004	Granted during the period	Lapsed during the period	Exercised during the period		
Directors								
Lau Chi Yung, Kenneth	7 February 1998	0.112	19,500,000	—	—	—	19,500,000	7 February 1998 to 6 February 2008
Tsang Pak Chung, Eddy	7 February 1998	0.112	19,500,000	—	—	—	19,500,000	7 February 1998 to 6 February 2008
Others employees								
In aggregate	7 February 1998	0.112	19,500,000	—	—	—	19,500,000	7 February 1998 to 6 February 2008
			<u>58,500,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>58,500,000</u>	

13 CAPITAL COMMITMENTS

As at balance sheet date, the Group had capital commitments in respect of the following:

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Contracted, but not provided for renovation of properties	356	2,965
Authorised, but not contracted for renovation of properties	—	420
	<u>356</u>	<u>3,385</u>

14 CONTINGENT LIABILITIES

The Company had guarantees amounting to HK\$484,060,000 (2003: HK\$524,694,000) given to banks for the banking facilities which had been fully utilised at the balance sheet date, granted by the banks to certain subsidiaries.

15 RELATED PARTY TRANSACTIONS

	Note	For the six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Lease rental received from Linkful Management Services Ltd	(i)	—	450
Lease rental received from Alpha Japan Limited (“Alpha Japan”), a minority shareholder of a subsidiary of the Group	(ii)	57	—
Sales of products to Alpha Japan	(iii)	2,726	2,416
Purchases of raw materials from Alpha Japan	(iii)	20	578
		<u> </u>	<u> </u>

Notes:

- (i) During the six months ended 30 June 2003, Mr Lau Chi Yung, Kenneth and Mr Tsang Pak Chung, Eddy, directors of the Company, were also directors of Linkful Management Services Limited and Mr Lau Chi Yung, Kenneth was substantial shareholder of Oriental Explorer Holdings Limited, the ultimate holding company of Linkful Management Services Limited. Oriental Explorer Holdings Limited became a subsidiary of the Group since 27 June 2003.

The lease rental received was arrived at after negotiations between both parties with reference to the prevailing market rentals.
- (ii) The rental income was charged based on open market rental.
- (iii) These transactions were based on published prices and conditions normally offered by the Group to third party customers in the ordinary course of business of the Group (in respect of the sales), and offered by Alpha Japan to third party customers (in respect of the purchases).

16 POST BALANCE SHEET EVENT

On 4 August 2004, the Company announced that the Company, through its wholly-owned subsidiary, entered into a conditional agreement (“Agreement”) with a minority shareholder (“Vendor”) of one of subsidiary of the Group (“the Subsidiary”) to purchase the Vendor’s equity interest in the Subsidiary for a consideration of HK\$40,914,685 and will be satisfied by allotment and issuance of 179,844,769 fully paid shares of the Company at HK\$0.2275 per share (“Consideration Shares”), subject to the fulfillment of the conditions as stated in the document issued by the Company dated 25 August 2004. The Agreement and the issuance of Consideration Shares were duly passed at the special general meeting of the Company held on 17 September 2004. The approval from the Stock Exchange for the listing and permission of deal in the Consideration Shares is pending up to the date of this condensed interim financial statements.

17 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period’s presentation.

18 APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved and authorised for issued by the Board of Directors on 17 September 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 November 2004 to 12 November 2004, both days inclusive, during which period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Tengis Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on 9 November 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Due to the recovery of Hong Kong market and continuous growth of PRC market, the Group ended up performing very well in the first half of 2004 with a net profit after tax of approximately HK\$31 million, an increase of 21% as compared with corresponding period in 2003. During the period under review, the Group remained very focused in its core rental and international steel trading businesses. The international steel trading business was the major business of Oriental Explorer Holdings Limited, the subsidiary acquired on 27 June 2003.

PROPERTY INVESTMENT

Shanghai

Shanghai as the fastest growing financial and commercial centre in China recorded a double digit GDP growth in 2003. The Group's Shanghai service apartment chain, operating under the name of "Windsor Renaissance", has already built up a market niche in Shanghai and has continued to contribute a strong return of investment with occupancy rate consistently maintained at approximately 90%. Our trademark, "Windsor Renaissance", which is a symbol of high quality service apartment, has been very well accepted by the expatriate community in Shanghai and our tenant base covers hundreds of multinational corporations from all over the world. At present, a portfolio of around 500 service apartments and houses are under our management.

"Windsor Place", the Group's newly completed prime residential development in mid of 2003 is a project comprising 126 detached houses and townhouses of first class hotel quality. At present, the occupancy rate for this project is 100% and the recurring annual rental of close to HK\$65 million would be generated from this project alone.

Hong Kong

The Group maintained an occupancy rate of close to 85% for its Hong Kong portfolio and contributed stable gross rental revenue of approximately HK\$16 million (2003: HK\$16 million) from investment properties in Hong Kong for the six months ended 30 June 2004. It is our intention to search for investment opportunities in Hong Kong when suitable opportunities arise.

STEEL TRADING

The first half of 2004 was a period with intense competition in the international steel trading. Steel prices were escalating at a fast pace and customers were not willing to acquire bulk volume and accumulate stock of steel products at a high price. The Group also adopted a more prudent approach on the international steel trading in order to minimize the risk on suffering the loss by the price fluctuation. Against this background, for the first half of 2004, our steel trading division recorded a trading volume of steel products of approximately 31,000 mt with a turnover of HK\$106 million.

In order to further enhance the performance on steel trading operations, weekly steel trading meetings have been constantly carried out to review and assess the business logistics and risk portfolio and all the way, critical review and assessment have ensured that all steel trading transactions have been undertaken in a smooth and professional manner. Moreover, continued efforts have been devoted to develop new sources and expand business opportunities.

FURTHER ACQUISITION OF TRIPLE LUCK INVESTMENTS LIMITED (“TRIPLE LUCK”)

On 4 August 2004, the Group announced that the Group, through Lucky Business International Limited (“Lucky Business”), one of its wholly owned subsidiary, entered into a conditional agreement (“Agreement”) with Ponting Limited (“Ponting”) to purchase from Ponting the equity interest in Triple Luck for a consideration of HK\$40,914,685 and will be satisfied by allotment and issuance of 179,844,769 fully paid shares of Multifield International Holdings Limited (“the Company”) at HK\$0.2275 per share (“Consideration Shares”), subject to the fulfillment of the conditions as stated in the document issued by the Company dated 25 August 2004. The Agreement and the issuance of Consideration Shares were duly passed at the special general meeting of the Company held on 17 September 2004. The approval from the Stock Exchange for the listing and permission of deal in the Consideration Shares is pending up to the date of this report.

The directors of the Company believed that with full control over Triple Luck, an investment holding company holding 8 floors and unit 701 in Multifield Plaza and Unit 7B in Rose Mansion, the asset base of the Group and the efficiency of the Group’s management control would be enhanced.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong and Shanghai. As at 30 June 2004, the Group had outstanding bank loans amounting to HK\$641 million, which were secured by legal charges on certain investment properties and properties held for sale in Hong Kong and Shanghai. As at 30 June 2004, the total outstanding bank borrowings of approximately HK\$641 million denominated in Hong Kong dollars, HK\$74 million are repayable within one year, HK\$326 million are repayable in the second year with the remaining balance repayable beyond the second year. The Group’s cash and bank balances and short term bank deposits as at 30 June 2004 amounted to approximately HK\$99 million. The Group’s gearing ratio as at 30 June 2004 was approximately 32% based on the total bank borrowings of approximately HK\$641 million and the aggregate of the shareholders’ funds, minority interests and total bank borrowings of approximately HK\$2,004 million.

PERSONNEL

As at 30 June 2004, the Group had a total of 560 employees, of whom 530 were based in the PRC and 30 in Hong Kong. The remuneration packages of the Group’s employees are mainly based on their performance and experience, taking into account current industry practices.

In addition to the provision of provident fund scheme, medical allowance, in-house and external training programs, discretionary bonus and share option scheme are also available to employees based on their performance. The remuneration policy and packages of the Group’s employees are reviewed regularly.

PROSPECTS

Even though Hong Kong has recently seen light in the tunnel, we should still prepare ourselves very well to cope with the future fluctuation should such event arise. The Board does trust that a strong recovery in the Hong Kong property market in the near future is still difficult if not impossible and the revitalization of the Hong Kong property market could only be materialized if the public confidence is returning and the local economy is approaching to a tangible recovery with an apparent improvement in real GDP and unemployment rate. However, we still remain very positive about the long term prospect of Hong Kong and will start to search for appropriate investment opportunities when the timing is right.

As regards our investment in Shanghai, we are very optimistic about our service apartment chain operation. Shanghai, as the financial and commercial hub of China, is bound to be the fastest growing city in China in the forthcoming years. As we have already established a firm footing and a strategic presence in Shanghai, we are very confident that we are extremely well positioned to deliver solid performance in this sector of business in the future. With the continuing opening up policy adopted by the Chinese Central Government, we strongly believe that the property market in Shanghai would flourish in the long run even though there may be some immediate control measures likely to be introduced by the government to cool down the prevailing property market sentiment. At present, we are progressively but cautiously searching for appropriate land bank and investment opportunities to cater for future growth in Shanghai. We strongly believe that the Group is heading the right direction and is extremely well placed to capitalize on this exciting opportunity.

The achievements of the past several years, which brought the Group to its current strong position, allow us to look forward with confidence to the future. The Board and management of the Group are dedicated to rewarding the shareholders who have supported the Company by their investment and have decided to continue to upkeep the dividend policy by proposing an interim dividend of 0.15 HK cent per share.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 30 June 2004, the interests and short positions of the directors and chief executives in the share capital of the Company or 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 by the Company pursuant to 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, were as follows:

Long position in the Company's ordinary shares:

Name of director	Capacity and nature of interest	Number of shares	Percentage of the Company's issued share capital
Mr Lau Chi Yung, Kenneth	Corporate	<u>2,327,424,000</u>	<u>58.18</u>

The above shares are ultimately controlled by Power Resources Holdings Limited as the trustee of the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr Lau Chi Yung, Kenneth and his family.

Long position in shares and underlying shares of the associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Number of shares/ Shares/ Equity derivatives	Equity derivatives held	Capacity and nature of interest	Percentage of associated corporation's issued share capital
Mr Lau Chi Yung, Kenneth	Oriental Explorer Holdings Limited	Company's subsidiary	Ordinary shares	1,018,154,999	Corporate	56.56
			Share options	19,500,000	Directly beneficially owned	N/A
Mr Tsang Pak Chung, Eddy	Oriental Explorer Holdings Limited	Company's subsidiary	Share options	19,500,000	Directly beneficially owned	N/A

The interest of Mr Lau Chi Yung, Kenneth in the shares of Oriental Explorer Holdings Limited are ultimately controlled by Power Resources Holdings Limited as the trustee of the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr Lau Chi Yung, Kenneth and his family.

In addition to the above, a director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors and chief executives had registered an interest in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares of the Company and its associated corporations" above, at no time during the period 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 minor children 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At the balance sheet date, the following shareholders had notified the Company of a direct or indirect interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:-

	Notes	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Power Resources Holdings Limited	(a)	Through a controlled corporation	2,327,424,000	58.18
Lucky Speculator Limited		Directly beneficially owned	2,195,424,000	54.88
Teddy Chien		Directly beneficially owned	358,091,712	8.95
Choi Koon Shum Jonathan	(b)	Through a controlled corporation	281,665,344	7.04
Lam William Ka Chung	(c)	Through a controlled corporation	281,665,344	7.04
Lam Wong Yuk Sin Mary	(c)	Through a controlled corporation	281,665,344	7.04
Kingsway International Holdings Limited	(d)	Through a controlled corporation	281,665,344	7.04
Innovation Assets Limited	(d)	Through a controlled corporation	281,665,344	7.04
World Developments Limited	(d)	Through a controlled corporation	281,665,344	7.04
SW Kingsway Capital Holdings Limited	(d)	Through a controlled corporation	281,665,344	7.04
Kingsway China Holdings Limited	(d)	Through a controlled corporation	281,665,344	7.04
Festival Development Limited	(d)	Through a controlled corporation	281,665,344	7.04
Opel Dragon Investments Limited	(d)	Directly beneficially owned	281,665,344	7.04

Notes:

- (a) Power Resources Holdings Limited was deemed to have a beneficial interest in 2,327,424,000 ordinary shares of the Company by virtue of its indirect interests through Lucky Speculator Limited and its wholly-owned subsidiary which held shares in the Company.
- (b) Mr. Choi Koon Shum Jonathan, who beneficially own or control approximately 48.18% of and in the issued share capital of Kingsway International Holdings Limited ("Kingsway International") and is deemed (by virtue of the SFO) to be interested in shares in, or debenture of, the subsidiaries of Kingsway International.
- (c) Mrs. Lam Wong Yuk Sin Mary and her spouse, Mr. Lam William Ka Chung, who together beneficially own or control approximately 40% of and in the issued share capital of Kingsway International and are deemed (by virtue of the SFO) to be interested in the shares in, or debenture of, the subsidiaries of Kingsway International.
- (d) Kingsway International was deemed to have beneficial interests in 281,665,344 ordinary shares of the Company by virtue of its indirect interests through Innovation Assets Limited, World Developments Limited, SW Kingsway Capital Holdings Limited, Kingsway China Holdings Limited and Festival Development Limited and Opel Dragon Investments Limited ("Opel"). Opel is directly held shares in the Company.

Save as disclosed above, no person, other than the directors and chief executives of the Company, whose interest are set out in the section "Directors' and chief executives' interests and short positions in shares and underlying shares of the Company and its associated corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASES, SALES OR REDEMPTIONS OF THE COMPANY'S LISTED SECURITIES

During the period, there were no purchases, sales or redemptions of the Company's listed securities by the Company or by any of its subsidiaries.

REVIEW BY AUDIT COMMITTEE

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

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 of the Stock Exchange, throughout the accounting period covered by the interim report, except that the non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Annual General Meeting of the Company, in accordance with the provisions of the Company's bye-laws.

By order of the Board
Lau Chi Yung, Kenneth
Chairman

Hong Kong, 17 September 2004

DIRECTORS

As at the date of this report, the Company's executive directors include Mr Lau Chi Yung, Kenneth, Mr Lau Michael Kei Chi and Mr Cho Po Hong, Jimmy; and non-executive directors include Mr Tong Wui Tung, Ronald and Mr Tsang Pak Chung, Eddy, and independent non-executive directors include Mr Lee Sui Man, Ervin and Mr Choy Tak Ho.