



陸氏實業(集團)有限公司
LUKS INDUSTRIAL (GROUP) LIMITED

Interim Report

2004

LUKS

For the six months ended 30th June, 2004

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➤ MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group's turnover for the six months ended 30 June 2004 was HK\$126,635,000, representing a slight increase of 1.5% as compared to HK\$124,812,000 of the corresponding period in last year.

The Group recorded an unaudited consolidated net profit from ordinary activities attributable to shareholders of HK\$26,337,000 for the six months ended 30 June 2004, also representing a slight increase of 3.2% as compared to HK\$25,513,000 of the corresponding period in last year.

Since the Group had completely disposed of its investment in TCL International Holdings Limited ("TCL") in last year, the Group's profit or loss coming from investment activities was significantly lower for the period. As a result, the Group's performance since this year would no longer be affected by the fluctuation of the market value of the TCL's investment as it was in the past few years.

The Group's "Other revenue and gains" includes a gain on early redemption of promissory note of HK\$29,814,000. At the Special General Meeting held on 15 June 2004, independent shareholders of the Company approved to redeem the 5-year HK\$200,000,000 promissory note of the Company at a discounted price. The total consideration includes the payment in cash of HK\$45,000,000 and the issuance of 111,478,117 new shares of the Company at a price of HK\$1.211 per share. The gain on early redemption of the promissory note came from the amount discounted and interests waived for the promissory note.

Contributions from normal operating activities of the Group came mainly from its cement business, property investment and health care products business. Profits before taking into account of interest income, finance costs, tax and minority interests came from the cement business and the property investment for the period were HK\$32,207,000 and HK\$6,320,000 respectively, whereas for the same period of last year, the corresponding figures were profits of HK\$32,280,000 and HK\$3,801,000 respectively. The health care products business of the Group which is operated through its principal subsidiary, Vigconic (International) Limited ("Vigconic") recorded a loss of HK\$24,495,000 for the period, including in which a goodwill amortisation of HK\$14,952,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Cement Business

The total sales quantity of cement and clinker recorded a growth of approximately 8% to 364,000 tonnes for the first six months of the year when compared to the figure of the same period in last year. However, the total sales amount was approximately the same as compared to the last year's figure, which was mainly due to the fact that the Group increased its sales of clinker and low-price cement in order to compensate for the decrease in sales of the higher price cement. Besides, the market price of cement had only been flat during the period. On the other hand, the production cost increased for about 2% during the period, which was mainly attributed to the increase in prices of steel, fuel oil, coal and other materials and labour cost.

As operations of the newly modified and upgraded production lines have been becoming smooth, it is expected that the production capacity of the cement plant can reach 700,000 tonnes for the full year of 2004. Since the Vietnam's economy is expected to achieve a stable growth in this year, the Group's cement business is also expected to remain stable for the second half of 2004.

Saigon Trade Centre and other investment properties

The leasing market of office spaces in Vietnam for the first half of 2004 showed a significant improvement as compared to the same period of last year. Both the domestic and foreign investments in Vietnam were seen to have substantially increased.

The Saigon Trade Centre recorded a lease-out rate of 62% as at 30 June 2004, whereas the lease-out rate as at 31 December 2003 was 58%. The average rental rate also recorded a growth of 6% for the first half of 2004 as compared to the rental rate in 31 December 2003. It is expected that the lease-out rate shall be increased in a steady pace in the second half of the year.

The Group's other investment properties situated in Hong Kong and the PRC, except a few apartments in the PRC, were fully leased out providing the Group a stable revenue and constant cashflow for the period.

➤ MANAGEMENT DISCUSSION AND ANALYSIS

Health Care Products Business

At the present stage, Vigconic dedicates to the clinical trials and research on its products, especially focusing on the clinical trials conducted with certain reputable universities in Hong Kong. Results of some of the clinical trials are encouraging. The Group announced on 28 July 2004 that two of the products of Vigconic, namely “ViNeuro” and “Osteomaker” had successfully passed the preliminary clinical trials with good results and were formally launched to the market.

“ViNeuro” is as a supplement to the western medicine for the treatment of Alzheimer’s disease and Parkinson’s disease, with its efficacies being certified and confirmed by clinical studies conducted by the Hong Kong Baptist University’s Institute for the Advancement of Chinese Medicine. A number of patients with Parkinson’s Disease and Alzheimer’s Disease had participated in the clinical studies to examine the effect of “ViNeuro”. It was revealed that a synchronous treatment by western medicine together with “ViNeuro” had significantly improved the medical condition of the patients than that of a treatment by western medicine alone.

“Osteomaker” is effective to alleviate bones problems and osteoporosis (including the bones and joints pain suffered by post-SARS patients, with some of them showed an impressive improvement of over 30% on their Avascular Necrosis condition after using “Osteomaker”). Preliminary clinical results showed that “Osteomaker” had been effective on relieving symptoms such as joints pain, insomnia and depression of the patients and improved the patients’ quality of life. Osteoporosis is a serious issue in Hong Kong. According to Department of Medicine of The University of Hong Kong, there are approximately 300,000 female and 100,000 male suffering from the symptoms.

Besides, Vigconic is also conducting clinical trials on another two of its products with a reputable university that has an associated hospital in Hong Kong. The clinical trial of the first product is on its role as a supplement to the treatment of cancer patients in order to alleviate the patients’ pain and to reduce side effects brought by the western medicine, with its ultimate aim of improving the quality of life of the cancer patients. It is expected that the preliminary results of the clinical trial will be available on the first half of next year. The clinical trial of the second product is on the research of its treatment on cirrhosis. The clinical trial is expected to start on October this year and with duration of one year.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

Since the Group has achieved a stable cash inflow, the board of directors has resolved to declare an interim dividend of HK\$0.03 per share to the shareholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's cash and bank balances as at 30 June 2004 amounted to HK\$161,365,000 (as at 31 December 2003: HK\$142,600,000). The Group's total borrowings amounted to HK\$90,098,000 (as at 31 December 2003: HK\$305,421,000), of which HK\$53,789,000 was repayable within 1 year, HK\$36,309,000 repayable over 1 year. The percentage of the Group's borrowings denominated in HK\$ and Vietnamese Dong ("VND") were 11% and 89% respectively.

As a result of the redemption of the 5-year promissory note amounted to HK\$200,000,000 on 18 June 2004, both the borrowings and the gearing ratio of the Group have substantially reduced as at 30 June 2004 when compared to that of 31 December 2003.

The gearing ratio, expressed as the percentage of long-term debt to equity, was 4% as at 30 June 2004 (as at 31 December 2003: 29%).

Share Capital

The Company has redeemed the 5-year promissory note amounted to HK\$200,000,000 on 18 June 2004 with a total consideration comprising of HK\$45 million in cash and the issuance of 111,478,117 new shares of the Company at HK\$1.211 per share. As a result, the number of issued shares of the Company has increased substantially during the period.

Furthermore, the Company's warrants were mostly exercised before its expiry date during the period that also contributed to an increase in the number of issued shares of the Company. All the warrants of the Company was expired on 17 June 2004. A total number of 3,010,255 unexercised warrants were lapsed and cancelled. The total number of warrants being exercised for the first half of 2004 was 59,236,384, which resulted in a total number of 59,236,384 shares of the Company having been issued.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2004, the Company has a total number of issued shares of 490,705,418 shares (as at 31 December 2003: 319,990,917 shares).

Employees and Remuneration Policy

As at 30 June 2004, the Group had approximately 800 employees. Most of them were working in Vietnam. The total staff cost (including directors' remuneration) was approximately HK\$11,158,000 for the period. There was no significant change on the Group's remuneration policy as compared to that disclosed on the Group's annual report for the year ended 31 December 2003.

Details of Charges

As at 30 June 2004, the Group has pledged certain fixed assets at a net book value of HK\$262,636,000 to secure banking facilities.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's investments in Vietnam are subject to the exchange fluctuation, and especially that from the risk of devaluation of VND. As VND is a restricted currency, there is a lack of hedging instruments in the market. The Group's measures to minimize its exposure to the risk have not been changed from those disclosed on its annual report for the year ended 31 December 2003. The Vietnamese Dong to Hong Kong Dollar has devalued for 3% since 31 December 2003.

Details of Contingent Liabilities

As at 30 June 2004, the Group had no significant contingent liabilities (31 December 2003: Nil).

► INTERIM FINANCIAL STATEMENTS

RESULTS

The Board of Directors (the "Board") of Luks Industrial (Group) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2004 together with the comparative figures. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

	Notes	For the six months ended 30 June	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
TURNOVER	2	126,635	124,812
Cost of sales		(64,125)	(62,171)
Gross profit		62,510	62,641
Other revenue and gains	3	32,393	29,004
Unrealised holding loss on other investments		–	(8,700)
Selling and distribution costs		(7,924)	(4,537)
Administrative expenses		(29,581)	(28,557)
Other operating expenses		(20,367)	(11,279)
PROFIT FROM OPERATING ACTIVITIES	4	37,031	38,572
Finance costs	5	(3,674)	(6,119)
Share of profits of a jointly-controlled entity		2,080	–

► INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)

For the six months ended 30 June 2004

		For the six months ended 30 June	
	Notes	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
PROFIT BEFORE TAX		35,437	32,453
Tax	6	(2,368)	–
PROFIT BEFORE MINORITY INTERESTS		33,069	32,453
Minority interests		(6,732)	(6,940)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		26,337	25,513
DIVIDEND – Interim	7	14,721	12,759
EARNINGS PER SHARE	8		
Basic		7.9 cents	8.3 cents
Diluted		7.5 cents	8.0 cents

► INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2004

	<i>Notes</i>	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		331,088	347,031
Investment properties		500,320	513,377
Goodwill		277,788	293,201
Technical know-how		3,750	4,000
Interests in a jointly-controlled entity		(1,459)	(3,039)
Other investments		1,095	–
Deferred tax assets		–	1,630
		1,112,582	1,156,200
CURRENT ASSETS			
Inventories		8,166	10,718
Trade receivables	9	25,401	15,713
Other receivables, prepayments and deposits		35,745	34,338
Short term investments		1,731	1,788
Cash and cash equivalents		161,365	142,600
		232,408	205,157
CURRENT LIABILITIES			
Trade payables	10	25,066	21,390
Tax payable		17,690	17,682
Dividend payable		14,721	–
Other payables and accruals		75,768	81,001
Due to directors		33,318	11,085
Due to a related company		6,280	5,753
Interest-bearing bank and other borrowings		53,789	52,939
		226,632	189,850
NET CURRENT ASSETS		5,776	15,307
TOTAL ASSETS LESS CURRENT LIABILITIES		1,118,358	1,171,507

► INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

30 June 2004

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	36,237	49,252
Finance lease payables	72	216
Promissory note	–	203,014
Due to a related company	1,650	2,200
Rental deposits	12,218	10,580
Provisions	4,245	4,264
	54,422	269,526
MINORITY INTERESTS	34,224	27,421
	1,029,712	874,560
CAPITAL AND RESERVES		
Issued capital	4,907	3,200
Reserves	1,024,805	852,161
Proposed final dividend	–	19,199
	1,029,712	874,560

► INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Issued share capital HK\$'000 (Unaudited)	Share premium account HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Investment property revaluation reserve HK\$'000 (Unaudited)	Exchange fluctuation reserve HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	Proposed final dividend HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2004	3,200	12,196	783,855	10,938	111,719	(77,287)	10,740	19,199	874,560
2003 final dividend paid	-	-	(1,094)	-	-	-	-	(19,199)	(20,293)
Exercise of warrants	592	52,720	-	-	-	-	-	-	53,312
Consideration shares issued for early redemption of promissory note	1,115	127,085	-	-	-	-	-	-	128,200
Exchange realignment	-	-	-	-	(4,135)	(13,548)	-	-	(17,683)
Net profit for the period	-	-	-	-	-	-	26,337	-	26,337
Interim dividend (note 7)	-	-	-	-	-	-	(14,721)	-	(14,721)
At 30 June 2004	4,907	192,001	782,761	10,938	107,584	(90,835)	22,356	-	1,029,712

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2004

	Issued share capital HK\$'000 (Unaudited)	Share premium account HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Reserve funds HK\$'000 (Unaudited)	Investment property revaluation reserve HK\$'000 (Unaudited)	Exchange fluctuation reserve HK\$'000 (Unaudited)	Retained profits/ (Accumulated losses) HK\$'000 (Unaudited)	Proposed final dividend HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2003:										
As previously reported	3,038	1,070	816,649	11,280	259	96,333	(73,086)	(12,430)	18,319	861,432
Prior year adjustment: Statement of Standard Accounting Practice ("SSAP") No. 12 – restatement of deferred tax	-	-	-	-	-	-	-	3,388	-	3,388
As restated	3,038	1,070	816,649	11,280	259	96,333	(73,086)	(9,042)	18,319	864,820
2002 final dividend paid	-	-	(722)	-	-	-	-	-	(18,319)	(19,041)
Exercise of warrants	13	1,207	-	-	-	-	-	-	-	1,220
Exercise of share options	138	8,997	-	-	-	-	-	-	-	9,135
Share of reserve of a jointly-controlled entity	-	-	-	-	-	-	3	-	-	3
Exchange realignment	-	-	-	-	-	(785)	(57)	-	-	(842)
Net gains and losses not recognised in the profit and loss account	-	-	-	-	-	(785)	(54)	-	-	(839)
Net profit for the period	-	-	-	-	-	-	-	25,513	-	25,513
Interim dividend	-	-	-	-	-	-	-	(12,759)	-	(12,759)
At 30 June 2003	3,189	11,274	815,927	11,280	259	95,548	(73,140)	3,712	-	868,049

► INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	24,384	48,731
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(3,309)	(51,871)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(2,057)	(19,756)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	19,018	(22,896)
Cash and cash equivalents at beginning of period	142,600	136,754
Effect of foreign exchange rate changes, net	(253)	(54)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	161,365	113,804
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	74,876	68,426
Non-pledged time deposits with original maturity of less than three months when acquired	86,489	45,378
	161,365	113,804

▶ NOTES TO INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with SSAP 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

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

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and gross rental income received and receivable from investment properties during the period.

The Group is involved in the following principal activities:

- manufacture and sale of cement products
- manufacture and sale of holistic health care products
- sale of electronic products and plywood products
- property investment
- investment holding

NOTES TO INTERIM FINANCIAL STATEMENTS

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

Business segments

The following table presents revenue and profit/(loss) information for the Group's business segments for the six months ended 30 June.

	Cement products		Health care products		Property investment		Investment		Corporate		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:														
Sales to external customers	99,312	101,317	1,813	52	23,817	21,022	-	-	-	-	1,683	2,421	126,635	124,812
Other revenue	400	310	16	5	109	-	16	26,874	29,814	-	182	5	30,537	27,194
Total	99,712	101,627	1,829	57	23,926	21,022	16	26,874	29,814	-	1,875	2,426	157,172	152,006
Segment results	32,207	32,280	(24,495)	(11,321)	6,320	3,801	(4,011)	16,043	24,875	(4,552)	279	511	35,175	36,762
Interest income													1,856	1,810
Profit from operating activities													37,031	38,572
Finance costs													(3,674)	(6,119)
Share of profits of a jointly-controlled entity													2,080	-
Profit before tax													35,437	32,453
Tax													(2,368)	-
Profit before minority interests													33,069	32,453
Minority interests													(6,732)	(6,940)
Net profit from ordinary activities attributable to shareholders													26,337	25,513

▶ NOTES TO INTERIM FINANCIAL STATEMENTS

3. OTHER REVENUE AND GAINS

	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gain on early redemption of promissory note	29,814	–
Write back of other payable	–	26,836
Interest income	1,856	1,810
Others	723	358
	32,393	29,004

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation	10,891	11,076
Amortisation of goodwill	15,413	7,937
Amortisation of technical know-how	250	125
Impairment of an investment security	–	78
Gain on disposal of fixed assets	(172)	(146)

5. FINANCE COSTS

	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on:		
Bank loans repayable within five years	3,597	4,980
Promissory note repayable within five years	–	997
Loans from directors repayable within five years	44	109
Finance leases	33	33
	3,674	6,119

▶ NOTES TO INTERIM FINANCIAL STATEMENTS

6. TAX

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Group:		
Current – Mainland of The People's Republic of China	125	–
Deferred	1,630	–
	1,755	–
Share of tax attributable to a jointly-controlled entity	613	–
Total tax charge for the period	2,368	–

No provision for Hong Kong profits tax has been made as no assessable profits are arising in Hong Kong during the period (2003: Nil).

In accordance with the relevant tax rules and regulations in Vietnam, certain of the Group's subsidiaries in Vietnam enjoy income tax exemptions and reductions. At present, the standard tax rate applicable to these subsidiaries is 7.5%.

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

7. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK 3 cents (2003: HK 4 cents) per ordinary share in issue in respect of the six months ended 30 June 2004 payable on or before 20 October 2004 to shareholders where names are on the Registers of Members on 13 October 2004.

8. 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 approximately HK\$26,337,000 (2003: HK\$25,513,000), and the weighted average of 335,481,978 (2003: 307,651,602) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of approximately HK\$26,337,000 (2003: HK\$25,513,000). The weighted average number of ordinary shares used in the calculation is 335,481,978 (2003: 307,651,602) ordinary shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 14,295,943 (2003: 7,050,482) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period; and the weighted average of 1,164,098 (2003: 4,051,614) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

▶ NOTES TO INTERIM FINANCIAL STATEMENTS

9. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group allows an average credit period of 60 days to its trade debtors. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, is as follows:

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
0 – 30 days	10,384	10,647
31 – 60 days	4,329	2,821
61 – 90 days	2,751	1,139
91 – 120 days	4,168	419
Over 120 days	2,166	595
Over 1 year	1,603	92
	25,401	15,713

10. TRADE PAYABLES

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

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
0 – 30 days	7,779	5,058
31 – 60 days	1,920	1,710
61 – 90 days	52	79
91 – 120 days	669	7
Over 120 days	126	99
Over 1 year	14,520	14,437
	25,066	21,390

▶ NOTES TO INTERIM FINANCIAL STATEMENTS

11. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Within one year	37,546	34,681
In the second to fifth years, inclusive	30,382	42,775
	67,928	77,456

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between one to two years.

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Within one year	446	644
In the second to fifth years, inclusive	478	676
	924	1,320

▶ NOTES TO INTERIM FINANCIAL STATEMENTS

12. COMMITMENTS

In addition to the operating lease arrangement detailed in note 11(b) above, the Group had the following capital commitments at the balance sheet date:

	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Authorised and contracted for fixed assets	4,647	2,134
Capital contributions to an associate	2,282	2,282
Total capital commitments	6,929	4,416

13. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the period:

	<i>Notes</i>	For the six months ended 30 June 2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Directors:			
Interest expense on directors' loans	<i>(i)</i>	42	109
Interest expense on promissory note	<i>(ii)</i>	–	997

Notes:

- (i) The interest expense was paid to the directors on the amounts due to them at the rate of 1% (2003: 1%) over the Hong Kong dollar prime rate per annum.
- (ii) The interest expense was paid to Mr. Luk King Tin, a director of the Company, on the promissory note due to him at the rate of 2% per annum for the six months ended 30 June 2003. On 6 May 2004, the Company entered into an early redemption agreement with Mr. Luk King Tin for the early redemption of the promissory note and waive of his entitlement to the interest under the promissory note (the "Early Redemption"). The Early Redemption was completed on 18 June 2004. Further details of the Early Redemption are set out in the Company's circular dated 31 May 2004.
- (b) For the six months ended 30 June 2003, the Group acquired the entire issued share capital of Heritage Ventures International Limited, which held 65% entity interests in Vigconic (International) Limited from Mr. Luk King Tin, for a total consideration of HK\$260,000,000.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 11 October 2004 to Wednesday, 13 October 2004, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tengis Limited, at G/F., BEA Harbour View Centre 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 8 October 2004. Cheques for interim dividends will be despatched on or before 20 October 2004.

REVIEW BY AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2004 now reported have been reviewed by the Company's audit committee.

WARRANTS

During the period, 59,236,384 warrants were exercised for 59,236,384 shares of HK\$0.01 each at a price of HK\$0.90 per share. On 17 June 2004, the subscription rights attaching to the warrants were expired. No warrants was outstanding as at the balance sheet date.

➤ OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the interests and short positions of the directors 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation			
Luk King Tin	(a)	164,897,286	–	57,226,071	222,123,357	45.27%	
Cheng Cheung	(b)	12,456,800	–	36,912,027	49,368,827	10.06%	
Wong Hoi Wah		704,320	–	–	704,320	0.14%	
Luk Yan	(c)	3,370,800	54,000	–	3,424,800	0.70%	
Fan Chiu Tat, Martin		500,000	–	–	500,000	0.10%	
		181,929,206	54,000	94,138,098	276,121,304	56.27%	

➤ OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Long positions in shares of an associated corporation:

Name of director	Note	Name of associated corporation	Number of shares held, capacity and nature of interest			Total	Percentage of the associated corporation's issued share capital
			Relationship with the Company	Directly Beneficially owned	Through controlled corporation		
Luk King Tin	(d)	Vigconic (International) Limited ("Vigconic")	Company's subsidiary	1,000	98,996	99,996	25%

Notes:

- (a) Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited, which held 57,226,071 shares of the Company at the balance sheet date.
- (b) Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited, which held 36,912,027 shares of the Company at the balance sheet date.
- (c) Mr. Luk Yan had a family interest, which held 54,000 shares of the Company at the balance sheet date.
- (d) Mr. Luk King Tin had a beneficial interest in Vigconic Biotechnology Company Limited, which held 98,996 shares of HK\$1 each of Vigconic at the balance sheet date.

In addition to the above, certain directors have 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 had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

➤ OTHER INFORMATION

SHARE OPTION SCHEME

The following share options were outstanding under the Company's share option scheme during the period:

Category of participant	Number of share options outstanding as at 1 January 2004 and as at 30 June 2004	Date of grant of share options	Exercise period of share options	Exercise price of share options* <i>HK\$</i>
Other employees				
In aggregate	5,300,000	4 April 2001	4 April 2001 to 11 August 2004	0.98
	260,000	4 April 2001	4 April 2001 to 11 August 2004	0.65
	<u>5,560,000</u>			

* 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.

➤ OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares 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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
KT (Holdings) Limited	Directly beneficially owned	57,226,071	11.66%
CC (Holdings) Limited	Directly beneficially owned	36,912,027	7.52%

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

 **OTHER INFORMATION****PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice throughout the accounting period covered by the unaudited condensed consolidated interim financial statements of the Group.

ON BEHALF OF THE BOARD

Luk King Tin

Chairman

Hong Kong, 22 September 2004