

INTERIM RESULTS

The directors of South Sea Holding Company Limited (the “Company”) hereby announce the unaudited consolidated results 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 September 2003 as follows:

Condensed Consolidated Profit and Loss Account – Unaudited

For the six months ended 30 June 2004

	<i>Notes</i>	For the six months ended	
		30 June 2004 HK\$'000	30 September 2003 HK\$'000
Turnover	2	883	7,723
Cost of sales		(600)	(9,979)
Gross profit/(loss)		283	(2,256)
Other revenue		10,989	13,121
Engineering expenses		(55)	(181)
Administrative expenses		(5,753)	(1,391)
Depreciation and amortisation	3	(864)	(2,772)
Other operating expenses		(110)	(347)
Profit from operations	3	4,490	6,174
Finance costs		(310)	(14,623)
Share of results of associates		582	(376)
Profit/(Loss) before taxation		4,762	(8,825)
Taxation	4	–	–
Profit/(Loss) before minority interests		4,762	(8,825)
Minority interests		–	–
Profit/(Loss) for the period attributable to shareholders		4,762	(8,825)
		HK cents	HK cents
Basic earnings/(loss) per share	5	0.016	(0.03)

Condensed Consolidated Balance Sheet

As at 30 June 2004

		(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,265	1,402
Land held for development		3,418,148	3,394,457
Interest in associates		225,293	224,711
Deposit for acquisition of investments		330,000	75,472
Product development costs		149	149
Goodwill		20,975	21,518
Negative goodwill		(239,502)	(246,547)
		3,756,328	3,471,162
Current assets			
Trade and bills receivables	6	108	38
Other receivables and deposits		118,021	323,718
Cash at banks and in hand		4,349	20,967
		122,478	344,723
Current liabilities			
Amounts due to ultimate holding company		379,914	350,831
Amounts due to fellow subsidiaries		219,924	253,604
Trade and bills payables	7	2,184	2,156
Land premium payables		163,606	163,606
Other payables and accruals		193,598	177,248
Provision for tax		91	110
Bank loans and overdrafts (secured)	8	58,007	68,007
		1,017,324	1,015,562
Net current liabilities		(894,846)	(670,839)

Condensed Consolidated Balance Sheet (continued)

As at 30 June 2004

		(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
	<i>Notes</i>		
Total assets less current liabilities		2,861,482	2,800,323
Non-current liabilities			
Bank loans (secured)	8	310,833	310,859
Other loan (secured)		–	45,794
Deposit received		131,374	28,695
Deferred taxation		790	790
		442,997	386,138
Minority interests		–	–
Net assets		2,418,485	2,414,185
CAPITAL AND RESERVES			
Share capital	9	299,318	299,318
Reserves		2,119,167	2,114,867
Shareholders' funds		2,418,485	2,414,185

Condensed Consolidated Cash Flow Statement – Unaudited

For the six months ended 30 June 2004

	For the six months ended	
	30 June 2004 HK\$'000	30 September 2003 HK\$'000
Net cash outflow from operating activities	(7,110)	(28,058)
Net cash outflow from investing activities	(51,770)	(31,277)
Net cash inflow from financing	42,262	51,565
Decrease in cash and cash equivalents	(16,618)	(7,770)
Cash and cash equivalents at 1 January 2004 and 1 April 2003	20,695	8,550
Cash and cash equivalents at 30 June 2004 and 30 September 2003	4,077	780
Analysis of balances of cash and cash equivalents		
Bank balances and cash	4,349	1,052
Bank overdrafts	(272)	(272)
	4,077	780

Condensed Consolidated Statement of Changes in Equity – Unaudited

For the six months ended 30 June 2004

	Share capital HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2004	299,318	96,069	–	1,921,878	7,634	89,286	2,414,185
Exchange difference	–	–	–	–	(462)	–	(462)
Profit for the period attributable to shareholders	–	–	–	–	–	4,762	4,762
At 30 June 2004	299,318	96,069	–	1,921,878	7,172	94,048	2,418,485
At 1 April 2003	299,318	96,069	32	1,934,955	8,108	25,709	2,364,191
Exchange difference	–	–	–	–	(455)	–	(455)
Loss for the period attributable to shareholders	–	–	–	–	–	(8,825)	(8,825)
At 30 September 2003	299,318	96,069	32	1,934,955	7,653	16,884	2,354,911

Notes to Condensed Consolidated Interim Financial Statements

30 June 2004

1. Principal Accounting Policies

The unaudited condensed consolidated interim financial statements are prepared in compliance with Hong Kong Statement of Standard Accounting Practice 25 “Interim Financial Reporting” and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

2. Segment Information

- (a) The following analysis presents turnover and profit/(loss) for the Group's business segments for the period ended 30 June 2004:

	Turnover		Profit/(Loss)	
	Six months ended		Six months ended	
	30 June	30 September	30 June	30 September
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:				
<i>Continuing operations:</i>				
Consumer packaged electronics	883	1,379	(326)	(1,368)
Property development	–	–	873	4,564
<i>Discontinuing operations:</i>				
Electronic manufacturing services	–	6,344	–	(1,596)
Telecommunication products	–	–	(2)	(3)
	883	7,723	545	1,597
Other income			3,945	4,577
Profit from operations			4,490	6,174
Finance costs			(310)	(14,623)
Share of results of associates			582	(376)
Profit/(Loss) before taxation			4,762	(8,825)
Taxation			–	–
Profit/(Loss) before minority interests			4,762	(8,825)
Minority interests			–	–
Profit/(Loss) attributable to shareholders			4,762	(8,825)

2. Segment Information (continued)

- (b) The following analysis presents the Group's turnover and profit from operations by geographical segments:

	Turnover		Profit from operations	
	Six months ended		Six months ended	
	30 June	30 September	30 June	30 September
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical segments:				
Europe	59	601	3	(596)
Asia	824	7,122	542	2,193
	883	7,723	545	1,597

3. Profit from Operations

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

	For the six months ended	
	30 June	30 September
	2004	2003
	HK\$'000	HK\$'000
Depreciation for property, plant and equipment	322	2,772
Amortisation of goodwill	542	–
Provision of stock obsolescence	–	18
Gain on disposal of fixed assets	–	(2,609)
Negative goodwill released	(7,044)	(7,044)

4. Taxation

There is no taxation in the condensed consolidated profit and loss account for the six months ended 30 June 2004 and 30 September 2003.

No provision for Hong Kong profits tax and overseas tax has been made as the Group did not generate any assessable profits arising in Hong Kong and elsewhere during the period (6 months ended 30 September 2003: Nil).

5. Earnings/(Loss) Per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$4,762,000 (6 months ended 30 September 2003: loss of HK\$8,825,000) and the weighted average number of 29,931,804,183 (6 months ended 30 September 2003: 29,931,804,183) ordinary shares in issue during the period.

Diluted earnings/loss per share for the periods ended 30 June 2004 and 30 September 2003 have not been shown as there were no dilutive potential ordinary shares during those periods.

6. Trade and Bills Receivables

A defined credit policy is maintained within the Group. The aging analysis of the trade and bills receivables as at 30 June 2004 was as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
0 – 90 days	108	38
91 – 180 days	–	–
181 – 270 days	–	–
271 – 360 days	9	5
Over 360 days	15,614	15,668
Less: Provisions	(15,623)	(15,673)
	108	38

7. Trade and Bills Payables

The aging analysis of the trade and bills payables as at 30 June 2004 was as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
0 – 90 days	51	–
91 – 180 days	–	–
181 – 270 days	–	–
271 – 360 days	–	6
Over 360 days	2,133	2,150
	2,184	2,156

8. Bank Loans and Overdrafts (Secured)

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Bank overdrafts	272	272
Bank loans	368,568	378,594
	368,840	378,866
Less : Current portion due within one year included under current liabilities	(58,007)	(68,007)
Non-current portion included under non-current liabilities	310,833	310,859

9. Share Capital

	Number of shares of HK\$0.01 each	HK\$'000
Authorised:		
At 1 January 2004 and 30 June 2004	500,000,000,000	5,000,000
Issued and fully paid :		
At 1 January 2004 and 30 June 2004	29,931,804,183	299,318

10. Commitments

a) Capital commitments

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Contracted but not provided for	46,545	301,504

The capital commitments are mainly in respect of construction costs for certain property development projects undertaken in the PRC and acquisition of an investment.

b) Commitments under operating leases

The Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within one year	231	15
In the second to fifth years	122	–
	353	15

11. Contingent Liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Guarantees given in connection with credit facilities granted to a third party	31,236	96,254

12. Related Party Transactions

There is no material and significant related party transaction for period.

13. Litigations

There have been no material changes and developments in respect of pending litigation cases of the Group since the disclosures in the Group's annual audited financial statements for the year ended 31 December 2003.

14. Change in Financial Year End

The Company has changed its financial year end from 31 March to 31 December in 2003. The interim results for the current period cover a six-month period from 1 January 2004 to 30 June 2004. The comparative figures for the last corresponding period cover the period of six months from 1 April 2003 to 30 September 2003 as reported in the Company's 2003 interim report.

15. Subsequent Event

On 30 July 2004, the Company issued HK\$200,000,000 convertible notes to Robina Profits Limited ("Robina"), a wholly-owned subsidiary of Sino-i Technology Limited (the Company's holding company) for partial settlement of a shareholder's loan by way of set off against the consideration payable by Robina for the aforesaid convertible notes issued by the Company in accordance with the subscription agreement entered into between the Company and Robina on 29 December 2003. These convertible notes bear interest rate at 1% per annum and are due on 30 July 2005. Each of the convertible notes carries the right at any time commencing on the date of issue but before the due date to convert the whole or part of the outstanding principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.018 per share (subject to adjustment in certain circumstances).

INTERIM DIVIDEND

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2004 (6 months ended 30 September 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

During the period, the Group was principally engaged in property development; and design and marketing of consumer packaged electronics. Turnover for the period under review was approximately HK\$0.9 million (6 months ended 30 September 2003: HK\$7.7 million) and a net profit of HK\$4.8 million (6 months ended 30 September 2003: a net loss of HK\$8.8 million) was recorded. The net assets value of the Group amounted to HK\$2,418.5 million, representing a value of HK\$0.081 per share.

Given that the management of the Group disposed of its manufacturing facilities in December 2003, and revenue from its property division is yet to contribute, the Group recorded a further decline in overall turnover. The Group's net profit of HK\$4.8 million was mainly attributable to negative goodwill released and interest income for the period under review.

Property Development

During the period under review, the Group recorded no turnover (6 months ended 30 September 2003: nil) and a segment profit of approximately HK\$0.9 million (6 months ended 30 September 2003: 4.6 million) for this business division. The profit was attributable to negative goodwill released for the period under review.

Regarding the progress of the major development project in Shenzhen, the piling and basement excavation works have begun early this year, and such works are expected to complete in late 2004. Meanwhile, the superstructure construction is expected to commence immediately subsequent to the completion of piling and basement excavation works. Development of this project will be progressed in five phases. A renowned French design company, selected by means of public tender, has completed the first phase construction design involving gross floor area of approximately 170,000 sq. m. involving 8 blocks of residential buildings. This project is expected to generate strong cash flow for the Group in the next few years.

In addition, the Guangzhou project involves a total gross floor area of 1.08 million sq. m., and detailed urban planning design has been approved, and construction work for the first phase is expected to commence in the fourth quarter of 2004.

Consumer Packaged Electronics

During the period, turnover from this division was approximately HK\$0.9 million (6 months ended 30 September 2003: 1.4 million) and a reduced segment loss of approximately HK\$0.3 million (6 months ended 30 September 2003: HK\$1.4 million) was recorded.

In view of the ongoing difficult business environment, the management of the Group has disposed of the manufacturing facilities in December 2003 after careful consideration, and decided to remain the business of design and trading of consumer packaged electronic products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 30 June 2004, net assets value of the Group amounted to approximately HK\$2,418.5 million, including cash and bank balances of approximately HK\$4.3 million which was denominated mainly in Renminbi and Hong Kong dollars. As at 30 June 2004, the Group's bank and other borrowings decreased to HK\$369 million (at 31 December 2003: HK\$425 million). The decrease in bank and other borrowings is mainly due to loan repayment of HK\$55.8 million during the period. For the Group's bank and other borrowings at 30 June 2004, approximately HK\$189 million were bearing interest at fixed rates while approximately HK\$180 million were at floating rates. The gearing ratio of the Group, measured on the basis of total bank and other borrowings as a percentage of total shareholders' equity decreased to 15% as of 30 June 2004 from 18% as at 31 December 2003. The Group's contingent liabilities at 30 June 2004 were HK\$31 million due to the guarantees given in connection with credit facilities.

As at 30 June 2004, land with lot no. K708-5 at Liu Wan, Shekou, China together with all its sales proceeds were pledged as securities for credit facilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

As the majority of the Group's borrowings and transactions are denominated in Hong Kong dollars, US dollars and Renminbi, the Group's exposure to exchange rate fluctuations is relatively insignificant. In general, the Group mainly utilizes its Renminbi income receipt for capital requirements expenditures in China and has not used any financial instruments for hedging Renminbi bank borrowings during the period and such borrowings were mainly used for Renminbi capital requirements in China.

EMPLOYEES

The Group employs and remunerates its staff based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include contributions to provident fund schemes, group medical insurance, group personal accident insurance and external training sponsorship. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors. In general, salary review is conducted annually. At 30 June 2004, the Group had approximately 43 employees (at 30 September 2003: 270 employees). The salaries and allowance of employees for the period ended 30 June 2004 was approximately HK\$2.65 million (6 months ended 30 September 2003: HK\$6 million).

PROSPECT

The Company and its holding company, Sino-i Technology Limited ("Sino-i") have jointly announced on 29 December 2003 a restructuring plan as detailed in the Company's circular dated 23 March 2004. On 16 April 2004, the plan was approved by the independent shareholders of the Company. As part of the restructuring plan, convertible notes amounted to HK\$200 million (bearing an interest rate of 1% per annum and will mature on 30 July 2005) were issued by the Company to Robina Profits Limited, a wholly owned subsidiary of Sino-i, on 30 July 2004 in accordance with the subscription agreement dated 29 December 2003.

Upon the completion of the restructuring plan, the Company will continue to focus on its property development business, and through its subsidiary, Sino-i, will also engage in information technology business, provision of financial information and other IT related services. The management believes that the financial and trading prospects of the enlarged Group would be enhanced since it could enjoy the benefits of the rapidly growing information technology sector in China which Sino-i has been actively participated and shown outstanding performance.

DIRECTORS' INTERESTS AND SHORT POSITIONS

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

The Company

(i) *Interests in shares in issue (excluding interests in underlying shares)*

Name of director	Number of shares of HK\$0.01 each	Nature of interest	Approximate percentage holding
Yu Pun Hoi	20,266,720,000	Corporate	67.71%

Note: Mr. Yu Pun Hoi (“Mr. Yu”), together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Sino-i Technology Limited (“Sino-i”). These 20,266,720,000 shares are collectively held by Victorious Limited, Robina Profits Limited and Ko Tact Limited which are all wholly-owned subsidiaries of Sino-i. As such, Mr. Yu is taken to be interested in these shares for the purposes of Part XV of the SFO.

(ii) *Interests in underlying shares*

Name of Director	<i>Notes</i>	Number of underlying shares
Yu Pun Hoi	1	11,111,111,111
	2	18,761,668,837

Notes:

1. Pursuant to the agreement (the “Subscription Agreement”) entered into on 29 December 2003 between Robina Profits Limited (“Robina”) and the Company relating to the subscription of convertible loan notes in an aggregate principal amount of HK\$200,000,000 (the “South Sea Notes”), the Company agreed to issue and Robina agreed to subscribe for the South Sea Notes in an aggregate principal amount of HK\$200,000,000. The South Sea Notes are convertible into a total of 11,111,111,111 shares of the Company at an initial conversion price of HK\$0.018 each (subject to adjustments). Robina is a wholly owned subsidiary of Sino-i. As such, Mr. Yu is taken to be interested in these shares for the purposes of Part XV of the SFO.

2. Pursuant to the agreement (the “Sale and Purchase Agreement”) entered into on 29 December 2003 between the Company as purchaser and First Best Assets Limited, Rosewood Assets Limited, Pippen Limited, Staverley Assets Limited, 中信信息科技投资有限公司 (CITIC Information Technology Investment Company Limited), Macro Resources Limited and Empire Gate Industrial Limited (collectively, the “Vendors”) as vendors relating to the acquisition by the Company of a total of 12,515,795,316 shares (the “Sale Shares”) in Sino-i, the Company agreed to acquire from the Vendors the Sale Shares (of which 8,658,325,316 Sale Shares are held by companies controlled by Mr. Yu) at a consideration of HK\$976,334,238, representing a price of approximately HK\$0.078 each. Half of the consideration will be satisfied by an issue of a total of 27,120,395,500 shares in the Company (the “Consideration Shares”) at a price of HK\$0.018 each to the Vendors upon completion. Those Vendors which are companies controlled by Mr. Yu are entitled to a total of 18,761,668,837 Consideration Shares under the Sale and Purchase Agreement. As such, Mr. Yu is taken to be interested in these 18,761,668,837 Consideration Shares for the purposes of Part XV of the SFO.

(iii) Interests in debentures

Pursuant to the Subscription Agreement, the Company agreed to issue and Robina agreed to subscribe for the South Sea Notes in an aggregate principal amount of HK\$200,000,000. Robina is a wholly owned subsidiary of Sino-i. As such, Mr. Yu is taken to be interested in the South Sea Notes for the purposes of Part XV of the SFO.

Associated Corporation

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Sino-i and Sino-i is the holding company of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company holds in its associated corporations within the meaning of Part XV of the SFO. Sino-i is a company the shares of which are listed on the Stock Exchange which is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 30 June 2004, the interests and short positions of the directors of the Company in shares and underlying shares of Sino-i were as follows:

(i) Interests in shares in issue

Name of director	Number of shares of HK\$0.10 each			
	Personal interest	Corporate interest	Family interest	Total interest
Yu Pun Hoi	–	8,658,325,316	44,000,000	8,702,325,316
Zhang Hong Ren	504,000	–	–	504,000

(ii) *Short positions in shares*

Name of director	Number of shares	Nature of Interest
Yu Pun Hoi	8,658,325,316	Corporate

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

SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the “Scheme”). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board. The Company has not granted any share options under the Scheme since its adoption.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2004, those persons (other than directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person holding an interest in shares and underlying shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	Number of shares held	Number of underlying shares held	Approximate percentage of the issued share capital of the Company *	<i>Notes</i>
Kung Ai Ming	20,266,720,000	11,111,111,111	67.71	1
	–	18,761,668,837	–	1
Sino-i Technology Limited	20,266,720,000	11,111,111,111	67.71	2
Victorious Limited	11,976,270,000	–	40.01	2
Ko Tact Limited	7,890,450,000	–	26.36	2
Robina Profits Limited	400,000,000	11,111,111,111	1.34	2
Perfect Union Overseas Inc.	2,100,000,000	–	7.02	3
Fu Liang	2,100,000,000	–	7.02	3
First Best Assets Limited	–	4,333,786,998	–	4
Rosewood Assets Limited	–	3,680,106,736	–	4
Actinna Development Limited	–	8,580,881,605	–	4
Righteous International Limited	–	2,166,893,498	–	4
CITIC Group	15,265,220,133	6,191,833,164	50.99	5
CITIC Capital Markets Holdings Limited	15,265,220,133	–	50.99	5
CITIC International Financial Holdings Limited	15,265,220,133	–	51.00	5
CITIC Pacific Limited	15,265,220,133	–	50.99	5
Golden Gateway Enterprises Inc.	15,265,220,133	–	50.99	5
Forever Glory Holdings Ltd.	15,265,220,133	–	50.99	5
Macro Resources Limited	–	2,166,893,498	–	4 & 5
Empire Gate Industrial Limited	–	4,333,786,997	–	6
Yiu Kin Wai	–	4,333,786,997	–	6

* For the avoidance of doubt, interests in underlying shares have not been taken into account when calculating the percentages set out above since these underlying shares have not been issued as at 30 June 2004.

Notes:

1. Ms. Kung Ai Ming is the spouse of Mr. Yu and is taken to be interested in the shares in which Mr. Yu is taken to have an interest as disclosed above.
2. Victorious Limited, Ko Tact Limited and Robina are wholly-owned subsidiaries of Sino-i and the interests held by them in the Company are included as the interest of Sino-i. Pursuant to the Subscription Agreement, the Company agreed to issue and Robina agreed to subscribe for the South Sea Notes in an aggregate principal amount of HK\$200,000,000. The South Sea Notes are convertible into a total of 11,111,111,111 shares at an initial conversion price of HK\$0.018 each (subject to adjustments). Robina is taken to be interested in these 11,111,111,111 shares for the purposes of Part XV of the SFO.
3. Perfect Union Overseas Inc. is wholly-owned by Mr. Fu Liang. As such, Mr. Fu Liang is taken to be interested in the 2,100,000,000 shares directly held by Perfect Union Overseas Inc.
4. First Best Assets Limited and Rosewood Assets Limited are taken to be interested in 4,333,786,998 and 3,680,106,736 Consideration Shares respectively under the Sale and Purchase Agreement. First Best Assets Limited, Rosewood Assets Limited and Actinna Development Limited are wholly-owned by Mr. Yu. Pippen Limited is wholly-owned by Actinna Development Limited. As such, Actinna Development Limited is taken to be interested in the 8,580,881,605 Consideration Shares in which Pippen Limited holds an interest. Macro Resources Limited is owned as to 60% by Righteous International Limited and Righteous International Limited is wholly-owned by Mr. Yu. Righteous International Limited is taken to be interested in the 2,166,893,498 Consideration Shares in which Macro Resources Limited holds an interest. The interests of First Best Assets Limited, Rosewood Assets Limited, Actinna Development Limited and Righteous International Limited in the Company are included as part of the interest held by Mr. Yu.
5. Macro Resources Limited is owned as to 40% by Staverley Assets Limited. As such, Staverley Assets Limited is taken to be interested in the 2,166,893,498 Consideration Shares in which Macro Resources Limited holds an interest under the Sale and Purchase Agreement. In addition, Staverley Assets Limited itself is taken to be interested in 2,833,148,242 Consideration Shares and CITIC Information Technology Investment Company Limited is taken to be interested in 1,191,791,424 Consideration Shares under the Sale and Purchase Agreement. Both CITIC Information Technology Investment Company Limited and Staverley Assets Limited are indirectly wholly-owned by CITIC Group. Their interests are included as part of the interest of CITIC Group.

CITIC Capital Markets Holdings Limited is indirectly held as to 50% by CITIC Pacific Limited and as to 50% by CITIC International Financial Holdings Limited. Both CITIC International Financial Holdings Limited and CITIC Pacific Limited are companies the shares of which are listed on The Stock Exchange of Hong Kong Limited and in which CITIC Group controls a 53% and 28.88% interests respectively. Both Forever Glory Holdings Ltd. and Golden Gateway Enterprises Inc. are wholly-owned subsidiaries of CITIC Pacific Limited. The interest held by CITIC Capital Markets Holdings Limited is included as part of the interests of Forever Glory Holdings Ltd., Golden Gateway Enterprises Inc., CITIC Pacific Limited, CITIC International Financial Holdings Limited and CITIC Group.

6. Empire Gate Industrial Limited is wholly-owned by Mr. Yiu Kin Wai and its interest in the 4,333,786,997 Consideration Shares is included as part of the interest held by Mr. Yiu Kin Wai.

Save as disclosed above, as at 30 June 2004, no other person (other than a director and chief executive of the Company) had notified to the Company any interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold or redeemed any of the Company's shares during the period.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that non-executive directors are not appointed for a specific term as recommended in paragraph 7 of Appendix 14. All directors, including the non-executive directors, are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws.

AUDIT COMMITTEE

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

 **Interim Report**
2004

BOARD OF DIRECTORS

As at the date of this report, the board of directors of the Company comprises 3 executive directors, namely, Mr. YU Pun Hoi, Mr. ZHANG Hong Ren and Mr. ZHAO Liang; 2 non-executive directors, namely, Mr. YU Lin Hoi and Mr. LAM Bing Kwan; and 2 independent non-executive directors, namely, Mr. CHAN Lap Stanley and Mr. Francisco Paredes ACOSTA.

By order of the Board

Zhang Hong Ren

Director

Hong Kong, 20 September 2004