



建聯集團有限公司  
**Chinney Alliance Group Limited**  
(Incorporated in Bermuda with limited liability)

**Interim Report 2004**

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## BOARD OF DIRECTORS

### Executive Directors

James Sai-Wing WONG (*Chairman*)  
Stephen Sek-Kee YU  
Frank Kwok-Kit CHU  
Peter Chi-Chung LUK

### Non-executive Director

Herman Man-Hei FUNG

### Independent Non-executive Directors

William Gage MCAFEE  
David Chung-Shing WU  
Vincent Tian-Quan MO

## AUDIT COMMITTEE

Herman Man-Hei FUNG  
William Gage MCAFEE (*Chairman*)  
David Chung-Shing WU  
Vincent Tian-Quan MO

## COMPANY SECRETARY

Peter Chi-Chung LUK

## PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited  
Standard Chartered Bank  
The Hongkong and Shanghai Banking  
Corporation Limited

## AUDITORS

Ernst & Young

## PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited  
6 Front Street  
Hamilton HM 11  
Bermuda

## HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## REGISTERED OFFICE

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

18th Floor  
Hang Seng Building  
77 Des Voeux Road Central  
Hong Kong

## STOCK CODE

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**DMT International Hong Kong Limited**

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 E-mail : wcl@westcochinney.com

### RESULTS

The Group returned into profitability for the six months ended 30 June 2004. The net profit was HK\$5.2 million (2003: net loss of HK\$31 million) against increased turnover to HK\$510 million in the period (2003: HK\$414 million).

The turnover growth was mainly attributable to our strong plastic sales. Our plastic division recorded both volume and price growth under favorable market condition.

The Group rebounded into profit as the performance of our operating subsidiaries continues to improve. The Group have made full provision on goodwill impairment and marked down its investments in previous years. As a result, there have been no exceptional losses attributable to the Group during the period.

### INTERIM DIVIDEND

The Board does not propose the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

### BUSINESS REVIEW AND PROSPECTS

#### Trading of plastics and chemicals

DMT International Hong Kong Limited (“DMT”) and Jacobson van den Berg (Hong Kong) Limited (“JvdB”) recorded an aggregate turnover of HK\$385 million compared with HK\$295 million in the prior period. The successful securing of the Baerlocher agency in July 2003 and the increased resin price as triggered by high oil prices accounted for the growth in turnover during the period.

DMT and JvdB reported a corresponding growth in operating profit to HK\$15 million in the period (2003: HK\$9 million). The economic recovery and surging oil price inspires customer demand, which led to record breaking results in the period. Going forward, the plastic business will remain prosperous as we continue to diversify our product base and gear up our efforts in the mainland trade.

#### Trading of industrial products and equipment

Chinney Alliance Engineering Limited and its subsidiaries (“CAEL”) reported turnover of HK\$81 million compared with HK\$73 million in the prior period. The division posted a break-even result, contributed mainly from an increase in turnover during the period (2003: loss of HK\$1.4 million). The road ahead will remain difficult as CAEL is still plagued by the strong Euro for most of its product lines and the continued sluggishness of the local construction industry.

**Wholesaling of electrical appliances and air-conditioning engineering works**

Jackson Mercantile Trading Company Limited and its subsidiaries (“JMT”) maintained its turnover at HK\$44 million in the period (2003: HK\$45 million). The appreciation of Euro and severe market conditions continued to erode the margin of JMT. The move to diversify into supply and installation of electrical home appliances for building projects last year somewhat compensated the fall in contribution from wholesaling of electrical home appliances. Westco Chinney Limited, the subsidiary of JMT engaged in air-conditioning engineering works, continues its cost control effort to secure projects at reasonable margin. As of today, uncompleted projects on hand amounted to HK\$58 million. Despite such a severe operating environment, JMT reported a break-even result in the period (2003: operating profit of HK\$0.7 million).

**Investment and others**

The carpark assets were disposed in October 2003. The remaining investments are equity securities held for trading purpose. Periodic revaluation of the securities to their fair values resulted in an unrealised holding loss of HK\$1.9 million in the period (2003: HK\$0.5 million).

**Associates**

Shun Cheong Holdings Limited (“Shun Cheong”), a 29.9% owned associate of the Company, provides electrical and mechanical engineering services as well as other associated engineering services to the building industry. Shun Cheong reported turnover of HK\$734 million and a net profit of HK\$1.8 million for the year ended 31 March 2004, with a qualified opinion arising from limitation of scope on certain investments. Shun Cheong reported a profit of HK\$2.6 million in the first half of the year and a loss of HK\$0.8 million in the second half of the year ended 31 March 2004. As a result, the Group’s share of net loss of Shun Cheong, including tax charge, was HK\$0.2 million in the current period (2003: HK\$5 million).

There have been fewer construction development projects in both private and public sector during the period under review, which severely limited the availability of building service jobs. Shun Cheong will continue its effort in cost and productivity controls so as to further enhance its competitive edge in the market. Against the backdrop of the local economic recovery and the increasing business opportunities in Macau and the Mainland China, Shun Cheong remains optimistic on its future performance.

**FINANCIAL REVIEW****Liquidity and financial resources**

Total interest-bearing debts of the Group amounted to HK\$190 million as at 30 June 2004 (31 December 2003: HK\$172 million), of which HK\$146 million (31 December 2003: HK\$132 million) related to trust receipt loans. The debts were predominately due and repayable within one year. Current ratio of the Group at 30 June 2004, as measured by total current assets over total current liabilities, was 1.25.

Total cash on hand as at 30 June 2004 was HK\$44 million. The Group had a total of HK\$46 million committed but undrawn banking facilities at period end available for its working capital purpose.

The gearing ratio of the Group, as measured by the net interest-bearing debts of HK\$146 million over the shareholders' funds of HK\$143 million, was 102% as at 30 June 2004.

### **Use of Placement Proceeds**

On 3 March 2004, Multi-Investment Group Limited ("MIG") entered into a placing agreement to place 468,000,000 existing shares of the Company at a price of HK\$0.02 each to independent third parties. Concurrently, MIG entered into a subscription agreement with the Company to subscribe for 660,000,000 new shares of the Company also at the price of HK\$0.02 each. MIG is a substantial shareholder of the Company interested in approximately 29.1% of the Company's issued share capital pre and post the top-up placement.

The subscription was completed on 16 March 2004 and generated net cash proceeds of approximately HK\$13 million to the Group. The Group utilised approximately HK\$4 million for general working capital with the remaining sum of HK\$9 million being retained as cash and bank balances as at 30 June 2004.

### **Funding and treasury policy**

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group.

### **Pledge of assets**

Certain properties, having an aggregate book value of HK\$20 million as at 30 June 2004, were pledged to secure the borrowings of the Group.

### **Contingent liability**

Details of the Group's contingent liability are set out in note 14 to the interim financial statements.

### **Employees and remuneration policies**

The Group employed approximately 300 staff in Hong Kong and other parts of the PRC as at 30 June 2004. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

## OUTLOOK

The local economy continues to improve during the last few months. The higher crude oil prices do not seem to affect the economic recovery after the outbreak of the SARS episode. On the other hand, the Mainland China's economy remained buoyant despite the nationwide credit squeeze.

As our Group's trading subsidiaries operate principally in the local market and that of the Mainland China, the performance of the Group is also expected to improve in the coming year.

By Order of the Board  
**James Sai-Wing Wong**  
*Chairman*

Hong Kong, 16 September 2004



## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Six months ended 30 June	
		2004	2003
		(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
<b>TURNOVER</b>		<b>510,020</b>	414,397
Cost of sales/services		<b>(454,584)</b>	(363,536)
Gross profit		<b>55,436</b>	50,861
Other revenue and gains	3	<b>2,561</b>	1,533
Distribution and selling expenses		<b>(10,751)</b>	(10,637)
Administrative expenses		<b>(35,546)</b>	(36,435)
Other operating expenses, net		<b>(1,406)</b>	(1,591)
Provision for impairment of goodwill		–	(18,722)
Provision for impairment of interest in an associate		–	(5,800)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	4	<b>10,294</b>	(20,791)
Finance costs	5	<b>(2,808)</b>	(3,502)
<b>OPERATING PROFIT/(LOSS)</b>		<b>7,486</b>	(24,293)
Share of profits less losses of associates		<b>294</b>	(4,683)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>7,780</b>	(28,976)
Tax	6	<b>(2,043)</b>	(1,663)
<b>PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>		<b>5,737</b>	(30,639)
Minority interests		<b>(563)</b>	(233)
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>5,174</b>	(30,872)
<b>EARNINGS/(LOSS) PER SHARE – Basic</b>	7	<b>0.14 cent</b>	(0.93 cent)

		As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		30,027	30,938
Goodwill		1,634	1,759
Interests in associates		33,883	34,299
Deferred tax assets		1,435	1,497
Other assets		2,767	2,045
		<u>69,746</u>	<u>70,538</u>
<b>CURRENT ASSETS</b>			
Properties held for resale		3,036	3,036
Inventories		87,329	106,312
Gross amount due from contract customers		3,034	5,081
Trade and retention monies receivables	8	254,346	175,629
Amounts due from related companies		2,408	1,511
Short term investments		11,487	13,338
Deposits, prepayments and other receivables		12,994	11,036
Cash and cash equivalents		44,334	41,720
		<u>418,968</u>	<u>357,663</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	101,672	88,416
Trust receipt loans		146,095	132,051
Amounts due to related companies		600	742
Other payables and accruals		42,917	32,720
Tax payable		5,493	4,646
Interest-bearing bank loans and overdrafts		37,716	40,179
		<u>334,493</u>	<u>298,754</u>
<b>NET CURRENT ASSETS</b>		<u>84,475</u>	<u>58,909</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>154,221</u>	<u>129,447</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans		6,250	–
Provision for long service payment		1,658	1,650
Deferred tax liabilities		1,072	1,171
		<u>8,980</u>	<u>2,821</u>
<b>MINORITY INTERESTS</b>		<u>2,255</u>	<u>1,692</u>
		<u>142,986</u>	<u>124,934</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	10	39,660	33,060
Reserves	11	103,326	91,874
		<u>142,986</u>	<u>124,934</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Total shareholders' equity at 1 January	<b>124,934</b>	136,401
Issue of new shares, net of expenses	<b>12,862</b>	–
Impairment loss on goodwill previously eliminated against reserves	–	16,424
Exchange differences on translation of the financial statements of foreign entities	<b>16</b>	–
Net profit/(loss) for the period	<b>5,174</b>	(30,872)
Total shareholders' equity at 30 June	<b>142,986</b>	121,953

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash outflow from operating activities	<b>(27,827)</b>	(16,735)
Net cash outflow from investing activities	(244)	(582)
Net cash inflow from financing activities	31,819	15,194
Net increase/(decrease) in cash and cash equivalents	<b>3,748</b>	(2,123)
Cash and cash equivalents at beginning of period	7,028	8,580
Effect of foreign exchange rate changes, net	<b>(8)</b>	–
Cash and cash equivalents at end of period	<b>10,768</b>	6,457
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	44,334	38,128
Bank overdrafts	<b>(33,566)</b>	(31,671)
	<b>10,768</b>	6,457

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with the requirements of the Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting”.

The condensed consolidated interim financial statements should be read in conjunction with the 2003 annual financial statements. The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003.

2. SEGMENT INFORMATION

The Group is principally engaged in the trading of plastics and chemicals, distribution and installation of building supplies, electrical and mechanical products, wholesaling of electrical appliances and air-conditioning engineering works, property and investment holding. An analysis of the Group’s revenue and results by business segments and revenue by geographical segments is as follows:

(a) Business segments

	Plastic and chemical products		Building supplies, electrical and mechanical products		Electrical appliances and air-conditioning business		Property and investment holding		Group	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		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
<b>Segment revenue:</b>										
Sales to external customers	384,608	294,543	81,161	73,206	44,251	45,362	-	1,286	510,020	414,397
Other revenue	655	715	1,113	143	46	-	-	-	1,814	858
	<u>385,263</u>	<u>295,258</u>	<u>82,274</u>	<u>73,349</u>	<u>44,297</u>	<u>45,362</u>	<u>-</u>	<u>1,286</u>	<u>511,834</u>	<u>415,255</u>
<b>Segment results:</b>										
Operating profit/(loss)	15,455	9,452	383	(1,449)	55	715	-	302	15,893	9,020
Unrealised holding losses on other investments	-	-	-	-	-	-	(1,851)	(545)	(1,851)	(545)
	<u>15,455</u>	<u>9,452</u>	<u>383</u>	<u>(1,449)</u>	<u>55</u>	<u>715</u>	<u>(1,851)</u>	<u>(243)</u>	<u>14,042</u>	<u>8,475</u>
Interest income and unallocated gains									747	675
Unallocated expenses									(4,495)	(5,419)
Provision for impairment of goodwill									-	(18,722)
Provision for impairment of interest in an associate									-	(5,800)
Profit/(loss) from operating activities									10,294	(20,791)
Finance costs									(2,808)	(3,502)
Share of profits less losses of associates	-	-	-	-	-	-	294	(4,683)	294	(4,683)
Profit/(loss) before tax									7,780	(28,976)
Tax									(2,043)	(1,663)
Profit/(loss) before minority interests									5,737	(30,639)
Minority interests									(563)	(233)
Net profit/(loss) attributable to shareholders									<u>5,174</u>	<u>(30,872)</u>

There were no significant sales between the business segments during the period.

**2. SEGMENT INFORMATION (Continued)**
**(b) Geographical segments**

	Hong Kong		Elsewhere in the PRC		Group	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2004	2003	2004	2003	2004	2003
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Segment revenue:</b>						
Sales to external customers	474,813	379,699	35,207	34,698	510,020	414,397
Other revenue	1,812	858	2	–	1,814	858
	<u>476,625</u>	<u>380,557</u>	<u>35,209</u>	<u>34,698</u>	<u>511,834</u>	<u>415,255</u>

There were no significant sales between the geographical segments during the period.

**3. OTHER REVENUE AND GAINS**

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	40	120
Commission income	1,814	858
Others	707	555
	<u>2,561</u>	<u>1,533</u>

**4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

Profit/(loss) from operating activities is arrived at after charging:

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	1,171	1,500
Amortisation of goodwill	125	259
Unrealised holding losses on other investments	1,851	545
Staff costs (including directors' emoluments)	<u>23,864</u>	<u>23,234</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	<u>2,808</u>	<u>3,502</u>

No interest was capitalised by the Group in both periods.

6. TAX

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Current – Hong Kong	1,338	578
Current – Elsewhere	32	–
Deferred	<u>(37)</u>	<u>189</u>
	1,333	767
Share of tax attributable to associates	<u>710</u>	<u>896</u>
	2,043	1,663
Tax charge for the period	<u><u>2,043</u></u>	<u><u>1,663</u></u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003:17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on 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. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net profit attributable to shareholders of HK\$5,174,000 (2003: net loss of HK\$30,872,000) and the weighted average of 3,690,390,588 shares (2003: 3,305,994,984 shares) in issue during the period.

There has been no dilutive effect on the basic earnings per share for the period ended 30 June 2004 as the exercise prices of the outstanding share options were higher than the average market price of the Company's shares during the period.

Diluted loss per share for the period ended 30 June 2003 has not been disclosed as the share options outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

8. TRADE AND RETENTION MONIES RECEIVABLES

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Trade receivables	252,046	171,201
Retention monies receivable within one year	<u>2,300</u>	<u>4,428</u>
	<u><u>254,346</u></u>	<u><u>175,629</u></u>

The Group grants a credit period to its customers ranging from cash on delivery to 60 days. A longer credit period may be allowed to customers with a good business relationship. An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, is as follows:

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Current to 30 days	188,944	131,526
31-60 days	35,988	20,587
61-90 days	11,867	10,122
Over 90 days	<u>25,568</u>	<u>22,028</u>
	262,367	184,263
Provision	<u>(10,321)</u>	<u>(13,062)</u>
	<u><u>252,046</u></u>	<u><u>171,201</u></u>

9. TRADE AND BILLS PAYABLES

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Trade payables	60,832	54,202
Bills payable	<u>40,840</u>	<u>34,214</u>
	<u><u>101,672</u></u>	<u><u>88,416</u></u>



9. TRADE AND BILLS PAYABLES (Continued)

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

	<b>As at 30 June 2004 (Unaudited) HK\$'000</b>	<b>As at 31 December 2003 (Audited) HK\$'000</b>
Current to 30 days	52,735	44,607
31-60 days	2,161	2,920
61-90 days	2,091	3,576
Over 90 days	3,845	3,099
	<u>60,832</u>	<u>54,202</u>

10. SHARE CAPITAL

Shares

	<b>As at 30 June 2004 (Unaudited) HK\$'000</b>	<b>As at 31 December 2003 (Audited) HK\$'000</b>
<i>Authorised:</i>		
25,000,000,000 ordinary shares of HK\$0.01 each	<u>250,000</u>	<u>250,000</u>

	<b>Number of ordinary shares of HK\$0.01 each</b>	<b>Nominal value HK\$'000</b>
<i>Issued and fully paid:</i>		
At 1 January 2004	3,305,994,984	33,060
Issue of new shares	660,000,000	6,600
<b>At 30 June 2004</b>	<u><b>3,965,994,984</b></u>	<u><b>39,660</b></u>

On 16 March 2004, the Company allotted and issued 660,000,000 new shares of the Company to Multi-Investment Group Limited at HK\$0.02 per share pursuant to a share subscription agreement dated 3 March 2004.

**10. SHARE CAPITAL (Continued)**
**Share options**

The movement of outstanding share options of the Company during the period is as follows:

	Outstanding share options with an exercise price of HK\$0.78 per share	Outstanding share options with an exercise price of HK\$0.07 per share	Total
At 1 January 2004	6,855,000	48,000,000	54,855,000
Lapsed during the period	(5,880,000)	(8,000,000)	(13,880,000)
<b>At 30 June 2004</b>	<b>975,000</b>	<b>40,000,000</b>	<b>40,975,000</b>

The exercise in full of the outstanding share options would result in the issue of 40,975,000 additional ordinary shares for an aggregate amount of approximately HK\$3.6 million.

**11. RESERVES**

	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2004	562,724	236,500	11	(707,361)	91,874
Issue of new shares	6,600	–	–	–	6,600
Share issue expenses	(338)	–	–	–	(338)
Exchange re-alignment	–	–	16	–	16
Net profit for the period	–	–	–	5,174	5,174
<b>At 30 June 2004</b>	<b>568,986</b>	<b>236,500</b>	<b>27</b>	<b>(702,187)</b>	<b>103,326</b>

**12. RELATED PARTY TRANSACTIONS**

Set out below are the significant transactions between the Group and related parties during the period.

	Notes	Six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Management fee paid to a major shareholder	(i)	1,000	1,000
Sales of goods to associates	(ii)	(1,551)	(2,518)

Notes:

- (i) The management fee was charged by the major shareholder based on the time involvement of the personnel providing services.
- (ii) The sales of goods to associates were made according to the published prices and conditions offered to third-party customers.

**13. COMMITMENTS**

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

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

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Within one year	3,935	3,417
In the second to fifth years, inclusive	4,852	4,568
Beyond five years	—	52
	<u>8,787</u>	<u>8,037</u>

In addition to the operating lease commitments, at the balance sheet date, the Group had commitments under forward foreign exchange contracts amounting to HK\$12,388,000 (31 December 2003: HK\$10,966,000).

**14. CONTINGENT LIABILITY**

On 26 August 2003, the Group disposed its carpark assets and a villa in Shenzhen, the PRC to Careful Action Limited ("CAL"). The Company was contingently liable to pay HK\$3,100,000 plus accrued interest to CAL, in case the real estate ownership certificate for the villa failed to be obtained latest by 22 October 2005, being the date which is two years from the completion of the agreement.

The Group had no other significant contingent liability at the balance sheet date.

## CORPORATE GOVERNANCE

Regular meetings have been held by the audit committee of the Company since its establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal controls. The Company's interim report for the six months ended 30 June 2004 has not been audited, but has been reviewed by the audit committee with management.

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 to the Listing Rules, except that the non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

## SHARE OPTION SCHEME

The Company adopted an Executive Share Option Scheme (the "Scheme") on 24 September 1993, under which options may be granted to selected employees (including any director) of the Group. The Scheme, having a term of ten years, expired on 23 September 2003.

The holders of the outstanding share options have the right to convert the options into ordinary shares of the Company in whole or in part from the date of grant to the end of the exercisable period, which is ten years from the date of grant, at pre-determined exercise prices.

## GENERAL INFORMATION

Details of the share options granted to directors and employees under the Scheme together with the movements during the period are as follows:

	Number of share options held at 1 January 2004	Number of share options lapsed during the period	Number of share options held at 30 June 2004	Exercise price per share HK\$	Date of grant	Exercisable from	Exercisable until
<b>Share options to directors</b>							
Stephen Sek-Kee Yu	1,000,000	(1,000,000)	–	0.78	1 June 1994	1 June 1994	31 May 2004
	500,000	–	500,000	0.78	22 December 1995	22 December 1995	21 December 2005
	500,000	(500,000)	–	0.78	7 June 1997	1 June 1994	31 May 2004
	250,000	–	250,000	0.78	7 June 1997	22 December 1995	21 December 2005
	12,000,000	–	12,000,000	0.07	16 July 1999	16 July 1999	15 July 2009
	<u>14,250,000</u>	<u>(1,500,000)</u>	<u>12,750,000</u>				
Frank Kwok-Kit Chu	800,000	(800,000)	–	0.78	9 June 1994	9 June 1994	8 June 2004
	400,000	(400,000)	–	0.78	7 June 1997	9 June 1994	8 June 2004
	8,000,000	–	8,000,000	0.07	13 July 1999	13 July 1999	12 July 2009
	<u>9,200,000</u>	<u>(1,200,000)</u>	<u>8,000,000</u>				
Peter Chi-Chung Luk	4,000,000	–	4,000,000	0.07	12 July 1999	12 July 1999	11 July 2009
Herman Man-Hei Fung	8,000,000	–	8,000,000	0.07	13 July 1999	13 July 1999	12 July 2009
Kenneth Kin-Hing Lam*	800,000	(800,000)	–	0.78	2 June 1994	2 June 1994	1 June 2004
	800,000	(800,000)	–	0.78	8 January 1996	8 January 1996	7 January 2006
	400,000	(400,000)	–	0.78	7 June 1997	2 June 1994	1 June 2004
	400,000	(400,000)	–	0.78	7 June 1997	8 January 1996	7 January 2006
	8,000,000	(8,000,000)	–	0.07	21 July 1999	21 July 1999	20 July 2009
	<u>10,400,000</u>	<u>(10,400,000)</u>	<u>–</u>				
Sub-total	<u>45,850,000</u>	<u>(13,100,000)</u>	<u>32,750,000</u>				
<b>Share options to employees</b>							
In aggregate	225,000	(225,000)	–	0.78	4 June 1994	4 June 1994	3 June 2004
	555,000	(555,000)	–	0.78	10 June 1994	10 June 1994	9 June 2004
	225,000	–	225,000	0.78	2 January 1996	2 January 1996	1 January 2006
	4,000,000	–	4,000,000	0.07	16 July 1999	16 July 1999	15 July 2009
	4,000,000	–	4,000,000	0.07	19 July 1999	19 July 1999	18 July 2009
	<u>9,005,000</u>	<u>(780,000)</u>	<u>8,225,000</u>				
Sub-total	<u>9,005,000</u>	<u>(780,000)</u>	<u>8,225,000</u>				
<b>TOTAL</b>	<u><b>54,855,000</b></u>	<u><b>(13,880,000)</b></u>	<u><b>40,975,000</b></u>				

\* All options granted to Kenneth Kin-Hing Lam lapsed upon his resignation as a non-executive director of the Company on 26 March 2004.

Apart from the Scheme, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable any directors (including their spouses and minor children) to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company and 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 Issuers (the "Model Code") in the Listing Rules, were as follows:

### Long positions in ordinary shares of the Company

Name of directors	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
James Sai-Wing Wong	–	–	1,153,957,982	1,153,957,982	29.10%
			(Note)		
Frank Kwok-Kit Chu	1,206,000	1,196,000	–	2,402,000	0.06%
Peter Chi-Chung Luk	–	320,000	–	320,000	0.01%

*Note:* These shares are held by Multi-Investment Group Limited, a company in which James Sai-Wing Wong is a director and has beneficial interest.

The interests of the directors in the share options of the Company are separately disclosed under the share option scheme section.

Save as disclosed above and in the share option scheme section, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations as at 30 June 2004 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.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2004, the interests and short positions of those persons in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

### Long positions

Name	Notes	Capacity and nature of interest	Number of Shares held	Percentage of the Company's issued share capital
James Sai-Wing Wong	1	Interest through a controlled corporation	1,153,957,982	29.10%
Madeline May-Lung Wong	1	Interest through a controlled corporation	1,153,957,982	29.10%
Lucky Year Finance Limited	1	Interest through a controlled corporation	1,153,957,982	29.10%
Chinney Holdings Limited	1	Interest through a controlled corporation	1,153,957,982	29.10%
Chinney Investments, Limited	1	Interest through a controlled corporation	1,153,957,982	29.10%
Newsworthy Resources Limited	1	Interest through a controlled corporation	1,153,957,982	29.10%
Multi-Investment Group Limited	1	Beneficial owner	1,153,957,982	29.10%
Sumitomo Mitsui Banking Corporation	2	Beneficial owner	319,800,000	8.06%
Credit Suisse First Boston International	2	Beneficial owner	319,800,000	8.06%
Dresdner Kleinwort Wasserstein Limited	2	Beneficial owner	319,800,000	8.06%
Indo Plus B.V.	2	Beneficial owner	319,800,000	8.06%
Krung Thai Bank Public Company Limited	2	Beneficial owner	319,800,000	8.06%
PT. Bank Mandiri (Persero)	2	Beneficial owner	319,800,000	8.06%

### Notes:

1. James Sai-Wing Wong, Madeline May-Lung Wong, Lucky Year Finance Limited, Chinney Holdings Limited, Chinney Investments, Limited, Newsworthy Resources Limited and Multi-Investment Group Limited are deemed to be interested in the same parcel of 1,153,957,982 shares by virtue of Section 316 of the SFO.
2. These shares are registered in the name of an agent bank on behalf of six banks that comprise a syndicate of lenders to a shareholder of the Company (the "Syndicate"). The Syndicate's interest in the relevant shares was acquired as a result of security given by the shareholder over such shares in respect of a loan advanced to the shareholder by the Syndicate. Such interest became discloseable upon the Syndicate becoming entitled to exercise the power of sale and voting rights in respect of the interest in the shares as a result of a default by the shareholder. Accordingly, Sumitomo Mitsui Banking Corporation, Credit Suisse First Boston International, Dresdner Kleinwort Wasserstein Limited, Indo Plus B.V., Krung Thai Bank Public Company Limited and PT. Bank Mandiri (Persero) are each deemed to have a security interest in the relevant shares.

No share options of the Company were held by the above shareholders as at 30 June 2004.

Save as disclosed above, as at 30 June 2004, the Company had not been notified of any interests and short positions in the shares or underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

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

During the six months ended 30 June 2004, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares.