



SOUTH CHINA INDUSTRIES LIMITED

南華工業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 413)

2004 INTERIM REPORT

UNAUDITED INTERIM RESULTS

The Directors of South China Industries Limited (the “Company”) announce that the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2004	2003
		Unaudited	Unaudited
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	1,408,236	1,198,111
Cost of sales		(1,306,883)	(1,080,644)
Gross profit		101,353	117,467
Other operating income (including interest income)		3,519	9,259
Distribution costs		(17,214)	(19,887)
Administrative and operating expenses		(96,380)	(97,794)
Impairment of non-trading securities written back (made)		23,715	(3,382)
Gain on disposal of non-trading securities		235	—
Profit from operations	2 & 3	15,228	5,663
Finance costs		(3,670)	(4,118)
Share of results of associates		(3,825)	(6,436)
Profit (Loss) before taxation		7,733	(4,891)
Income tax (expense) credit	4		
Company and subsidiaries		(830)	(486)
Associate		393	2,021
Profit (Loss) before minority interests		7,296	(3,356)
Minority interests		(203)	8,219
Profit attributable to shareholders		7,093	4,863
Basic earnings per share	6	HK1.34 cents	HK0.92 cents

* Registered under Part XI of the Companies Ordinance

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2004 <i>Unaudited</i> <i>HK\$'000</i>	31 December 2003 <i>Audited</i> <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Biological assets		68,000	68,000
Property, plant and equipment		310,167	302,827
Investment properties		161,586	163,390
Land pending development		5,000	5,000
Interests in associates	7	346,307	352,089
Goodwill		9,280	4,993
Negative goodwill		(15,338)	(1,114)
Non-trading securities		89,415	64,491
		974,417	959,676
CURRENT ASSETS			
Inventories		366,626	264,135
Properties held for sale		19,221	19,221
Trade and other receivables	8	395,720	318,136
Amounts due from fellow subsidiaries		—	23
Bank balances and cash	9	93,299	136,862
		874,866	738,377
CURRENT LIABILITIES			
Trade and other payables	10	507,074	467,004
Amount due to an intermediate holding company		10	159
Amount due to fellow subsidiaries		77	8
Bank borrowings - due within one year		303,732	166,287
Obligations under finance leases		8,604	5,096
Taxation payable		7,590	8,595
Final dividend payable		10,607	—
		837,694	647,149
Net current assets		37,172	91,228
Total assets less current liabilities		1,011,589	1,050,904
CAPITAL AND RESERVES			
Share capital and share premium		246,443	246,443
Other reserves		187,149	186,186
Retained earnings		287,833	291,589
		721,425	724,218
MINORITY INTERESTS		210,905	242,906
NON-CURRENT LIABILITIES			
Bank borrowings - due after one year		66,335	75,110
Obligations under finance leases		11,292	7,776
Advances from minority shareholders		141	141
Deferred tax liabilities		1,491	753
		79,259	83,780
		1,011,589	1,050,904

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and share premium <i>Unaudited</i> <i>HK\$'000</i>	Other reserves <i>Unaudited</i> <i>HK\$'000</i>	Retained earnings <i>Unaudited</i> <i>HK\$'000</i>	Total <i>Unaudited</i> <i>HK\$'000</i>
At 1 January 2004	246,443	186,186	291,589	724,218
Final dividend proposed	—	—	(10,607)	(10,607)
Profit attributable to shareholders	—	—	7,093	7,093
Change in fair value of non-trading securities	—	703	—	703
Transfer to statutory reserve	—	242	(242)	—
Translation adjustments	—	18	—	18
At 30 June 2004	<u>246,443</u>	<u>187,149</u>	<u>287,833</u>	<u>721,425</u>
At 1 January 2003	246,443	194,376	224,977	665,796
Profit attributable to shareholders	—	—	4,863	4,863
Impairment of properties	—	(20,748)	—	(20,748)
Transfer to statutory reserve	—	462	(462)	—
Translation adjustments	—	(5)	—	(5)
At 30 June 2003	<u>246,443</u>	<u>174,085</u>	<u>229,378</u>	<u>649,906</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2004 <i>Unaudited</i> <i>HK\$'000</i>	2003 <i>Unaudited</i> <i>HK\$'000</i>
Net cash used in operating activities	(131,119)	(101,938)
Net cash (used in) from investing activities	(50,206)	30,151
Net cash from financing activities	<u>140,399</u>	<u>29,951</u>
Net decrease in cash and cash equivalents	(40,926)	(41,836)
Cash and cash equivalents at beginning of period	<u>89,703</u>	<u>91,581</u>
Cash and cash equivalents at end of period	<u>48,777</u>	<u>49,745</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash - general account balances	79,349	88,484
Bank overdrafts	<u>(30,572)</u>	<u>(38,739)</u>
	<u>48,777</u>	<u>49,745</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. Accounting policies

The unaudited condensed interim financial statements ("interim financial statements") have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These interim financial statements should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation 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. Turnover and segmental information

An analysis of the Group's consolidated turnover and contribution to profit from operations by principal activity and geographical location for the six months ended 30 June 2004 and 2003 is as follows:

	Turnover		Contribution to profit (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Trading and manufacturing	667,119	760,026	(5,696)	9,100
Travel and related services	718,305	407,589	8,708	(682)
Property investment and development	5,298	5,711	4,370	4,625
Information and technology	16,862	24,785	(3,275)	(3,998)
Agriculture	652	—	(3,648)	—
Investment holding	—	—	14,769	(3,382)
	<u>1,408,236</u>	<u>1,198,111</u>	<u>15,228</u>	<u>5,663</u>
By geographical location*:				
The People's Republic of				
China and Hong Kong	794,600	527,567	34,104	17,823
United States of America	397,292	443,071	(12,777)	(6,988)
Europe	168,109	184,327	(5,042)	(4,274)
Japan	2,382	11,518	(95)	(171)
Others	45,853	31,628	(962)	(727)
	<u>1,408,236</u>	<u>1,198,111</u>	<u>15,228</u>	<u>5,663</u>

* Turnover by geographical location is determined on the basis of the location where merchandise is delivered and/or service is rendered.

3. Depreciation

Profit from operations for the period is arrived at after charging depreciation of approximately HK\$22,270,000 (six months ended 30 June 2003: HK\$21,862,000) in respect of the Group's property, plant and equipment.

4. Income tax (expense) credit

Hong Kong profits tax was provided at the rate of 17.5% (six months ended 30 June 2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profit at rates of taxation prevailing in the countries in which the Group operates.

5. Interim dividend

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

6. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK\$7,093,000 (six months ended 30 June 2003: HK\$4,863,000) and on approximately 530,335,000 shares (six months ended 30 June 2003: 530,335,000 shares) in issue during the period.

Diluted earnings per share is not shown as there is no dilution effect for both periods.

7. Interests in associates

The amounts included advances to an affiliated company indirectly held by the Company and details are as follows:

Name of affiliated company	Proportion of issued capital held indirectly by the Company	Advances from the Group as at 30 June 2004 HK\$'000	Guarantees given by the Group HK\$'000
Firm Wise Investment Limited ("FWIL") (note)	30%	292,182	174,000

Note: The advances and guarantees given were used to finance a property development project in Hong Kong. The advances are unsecured, interest bearing at 0.5% per annum, repayable on demand and subordinated to the bank loans of the affiliated company. The guarantees given is to be matured in August 2008 of which approximately HK\$144,266,000 were utilized as at 30 June 2004.

The following details have been extracted from the unaudited financial statements of the Group's significant associate, FWIL, adjusted for the fair value of the investment property as at 31 December 2003 based on the valuation performed by an independent professional qualified valuer:-

	As at 30 June 2004 HK\$'000
Non-current assets	1,250,128
Current assets	15,550
Current liabilities	(74,779)
Non-current liabilities	(463,748)
	<u>727,151</u>
Attributable interest held by the Group	<u>218,145</u>

8. Trade receivables

Trade receivables of approximately HK\$325,362,000 (31 December 2003: HK\$240,184,000) are stated net of provision for bad and doubtful debts, substantially with an aging within 6 months.

9. Bank balances and cash

Approximately HK\$13,950,000 (31 December 2003: HK\$11,900,000) of bank deposits were pledged for the banking facilities granted to the Group.

10. Trade payables

Trade payables of approximately HK\$375,635,000 (31 December 2003: HK\$359,168,000) are substantially with an aging within 6 months.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With the rebound in the local economy and the reviving global market conditions, the Group achieved satisfactory growth in profit attributable to shareholders of HK\$7.1 million for the first six months ended 30 June 2004, representing about 46% increase over the corresponding period last year. During the period, the significant improvement of our travel business and the recovery of the securities prices attributed to the growth in profit.

Gross profit however declined due to the substantial rise in raw material costs for the manufacturing businesses and the relatively low profit margin pattern of the travel business. The surging oil prices had in turn dragged up the direct material costs, in particular plastic for our toy manufacturing business. Distribution and administrative expenses were lowered as compared with the same period last year from our continuing efforts in bringing down costs at the operating level which helped to offset the adverse impacts from rising material prices in the current period.

Trading and Manufacturing

Wah Shing International Holdings Limited (“Wah Shing”) reported an interim turnover of HK\$635 million as compared with last year’s first half turnover of HK\$687 million. The performance in the US economy was the major contributing factor to our dip in turnover. Over this period, despite Wah Shing continuing to improve operating efficiencies, our operating margins suffered from rising material costs as a result of increased oil prices.

The trading and manufacturing of leather shoes products continued to make positive contributions to the Group, while other leather products and garments operations improved though not yet profitable.

Likewise, the Group’s associate, Nority International Group Limited (“Nority”) engaging in manufacturing of athletic and leisure footwear, also adversely affected by the surging price of raw materials. This coupled with fierce competition within the industry and falling unit price of shoe products accounted for its declining turnover and operating loss for the period.

Travel and Related Services

Hong Kong Four Seas Tours Limited (“Fourseas”) gave a satisfactory performance over the first six months with an increase in turnover of HK\$311 million to HK\$718 million. The main reason for the dramatic jump in turnover was due to the effect of SARS in the previous year which crippled the local travel industry. Despite the improvement in performance, Fourseas is still experiencing cut-throat competition in a highly competitive market. Management forecasts a healthy bottom line this year amidst constantly diminishing margins. The company looks to diversify its current product portfolio to control the decrease in margins.

Property Investment and Development

Rental income from the Group’s investment properties for the first half of the year was satisfactorily stable with turnover of HK\$5.3 million and a net profit of HK\$4.4 million. As at 30 June 2004, over 90% of the total gross floor of our 30% owned Grade-A commercial building, “The Centrium”, was leased out and generating satisfactory income to the Group.

In the first half we maintained a hold position for most of our property portfolio, which stands at over HK\$800 million (including the holding through associates), as we remain bullish on the property sector.

Information and Technology

The operating environment is stabilizing in the IT market in the PRC. The business development of our Mainland IT joint ventures is picking up momentum during the past six months, as our products and services are getting more refined. Overall, the Group's IT sector reported turnover of HK\$16.9 million and net loss of HK\$3.3 million.

Agricultural Business

Our fish rearing lake farm in Nanjing reported minor loss of HK\$0.4 million. As the core business model of this project involves a yearly catch, the interim loss mainly reflects the operating expenses incurred. The fruit farms in Guangzhou made a loss of HK\$3.3 million due to untimely heavy rain during flowering and fruit bearing periods, our 2003/04 crop size was unable to produce significant revenue. The wholesale price of lychee and longan hit a new low this season, and in response we have implemented further cost cutting measures for the 2004/05 crop.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group had a current ratio of 1.04 and a gearing ratio of 9.2% (31 December 2003: 1.14 and 10.4% respectively). The gearing ratio is computed on comparing the Group's total long-term bank borrowings of HK\$66.3 million to the Group's shareholders' fund of HK\$721.4 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 30 June 2004, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments as at 30 June 2004 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2004, the Group has further acquired approximately 9% equity interests of Wah Shing for successive considerations of HK\$22 million.

On 31 March 2004, the Group acquired the remaining 51% equity interest in information and technology business from Geely Automobile Holdings Limited (formerly known as Guorun Holdings Limited) ("Geely") for an aggregate consideration of HK\$5.5 million of which HK\$0.5 million was satisfied in cash and the remaining HK\$5 million was satisfied by a set-off against an equivalent amount owed from Geely to the Group.

PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

There was no material change in the Group's pledges of assets, contingent liabilities and commitments as compared to the most recent published annual report.

PROSPECTS

Trading and Manufacturing

For Wah Shing we are facing a setback from the first half, and the second half will be an uphill struggle. Nevertheless we are confident to finish strong for the year as has always been the case as Christmas approaches. Reviewing the US toy market orders, Wah Shing looks to remain comfortably within the top three manufacturers worldwide for toys OEM business. The stringent cost environment, however, remains a major obstacle for Wah Shing to overcome and our strategy for the second half will focus on thoroughly reviewing overheads and cost control measures to maintain a competitive cost structure.

Performances of the trading and manufacturing operations of other toy-related products, leather footwear and garments are expected to improve in line with the acceleration of sales orders in the second half of the year.

Nority's management is still fully confident of the coming future. More efforts will be put on seeking business opportunities through various means for the purpose of market exploration and business development.

Travel and Related Services

We expect Fourseas to continue its good performance in the remaining six months as traditionally stronger results are posted in the second half of the year with heavy traffic in Summer and Christmas. Further expansion online and into Mainland China is being mapped out.

Property Investment and Development

For the second half of 2004 we expect the rental income from our property portfolio to generate steady recurrent earnings to the Group. Reviewing the recent market indicators of the property market, the Group is highly optimistic on the future of our property arm.

Information and Technology

Building up on the maturing products and services of our various IT joint ventures in the PRC, we intend to capitalise on this platform to generate revenue outside the Mainland with Hong Kong as a key business development and service center. The Group is investing additional resources in two strategic directions: offshore software development centers in China, and marketing of established software applications for the China market. It is anticipated that we will hit new revenue and profit streams in the foreseeable future. The Group will consider a spin-off of the IT division depending on the business performance and market conditions.

Agricultural Business

The second half looks comfortable for fish rearing and fruit tree growth at the operational level which gives management more time to focus on our main objective: expansion. We are looking to double our acreage in our production bases in Jiangsu province and Hebei province by the end of 2004, while growing our Guangdong base on a step-by-step approach.

Meanwhile, on a smaller scale we will be pilot studying fresh fruit trading, culturing new fruit sapling species, and food processing. We are aiming to develop a wider business platform for supplementing our future massive production base.

EMPLOYEES

As at 30 June 2004, the total number of employees of the Group was approximately 27,000. Performance of the staff is normally reviewed on an annual basis with adjustment compatible to the market. There is no material change in the information as compared to the most recently published annual report.

OTHER INFORMATION

INTERIM DIVIDEND

The Directors resolved not to declare an interim dividend for the six months ended 30 June 2004 (2003: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

(a) The Company

Name of Director	Capacity	Number of Ordinary Shares
Mr. Ng Hung Sang, Robert ("Mr. Ng")	Interests of controlled corporations	396,621,357 (Note a)

(b) Associated Corporations

(i) South China Holdings Limited ("SCH") (Note b)

Name of Director	Capacity	Number of Ordinary Shares	Total Number of Ordinary Shares
Mr. Ng	Beneficial owner	71,652,200	1,344,181,812
	Interests of controlled corporations	1,272,529,612 (Note c)	
Mr. Richard Howard Gorges ("Mr. Gorges")	Interests of controlled corporations	487,949,760 (Note c)	487,949,760
Ms. Cheung Choi Ngor, Christina ("Ms. Cheung")	Interests of controlled corporations	487,949,760 (Note c)	487,949,760

(ii) South China Brokerage Company Limited ("SCB") (Note d)

Name of Director	Capacity	Number of Ordinary Shares	Total Number of Ordinary Shares
Mr. Ng	Beneficial owner	7,378,000	3,633,830,500
	Interests of controlled corporations	3,626,452,500 (Note e)	
Mr. Gorges	Beneficial owner	16,174,000	16,174,000

(iii) Nority International Group Limited (“Nority”) (Note f)

Name of Director	Capacity	Number of Ordinary Shares
Mr. Ng	Interests of controlled corporations	114,118,540 (Note g)

(iv) Wab Shing International Holdings Limited (“Wab Shing”) (Note b)

Name of Director	Capacity	Number of Ordinary Shares
Mr. Ng	Interests of controlled corporations	169,669,688 (Note i)

(v) South China Financial Credits Limited (“SCFC”) (Note j)

Name of Director	Capacity	Number of Ordinary Shares
Mr. Ng Yuk Fung, Peter	Beneficial owner	250,000

(vi) The Express News Limited (“Express News”) (Note k)

Name of Director	Capacity	Number of Ordinary Shares
Mr. Ng	Interests of controlled corporations	30 (Note l)

Save as disclosed above, none of the directors or chief executive of the Company had, as at 30 June 2004, any interests or short positions 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) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Notes:

- (a) The 396,621,357 shares in the Company are held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) below and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of the Company under the SFO.
- (b) SCH owns 74.79% shareholdings in the Company and is the ultimate holding company of the Company.
- (c) Mr. Ng, Ms. Cheung and Mr. Gorges, through companies wholly-owned and controlled by them, have interests in 487,949,760 shares in SCH. Mr. Ng personally owns 71,652,200 shares and through companies wholly-owned and controlled by him, beneficially owns 784,579,852 shares in SCH.
- (d) SCB is a 74.59% owned subsidiary of SCH.
- (e) The 3,626,452,500 shares in SCB are held by certain wholly-owned subsidiaries of SCH. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCB under the SFO.
- (f) The Company owns 42.56% shareholdings in Nority and is considered as the Company’s associated corporation.
- (g) The 114,118,540 shares in Nority are held by an indirect wholly-owned subsidiary of the Company. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of Nority under the SFO.
- (h) Wah Shing, a Singapore listed company, is a 62.34% owned subsidiary of the Company.

- (i) The 169,669,688 shares in Wah Shing are held by a wholly-owned subsidiary of the Company. By virtue of the interests in the shares of SCH in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of SCH as described in Note (c) above and as a director of SCH, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of Wah Shing under the SFO.
- (j) SCFC is a 97.34% owned subsidiary of SCB.
- (k) Express News is a 70% owned subsidiary of SCH.
- (l) Mr. Ng and his family, through a company wholly owned and controlled by them, have interests in 30 shares in Express News.
- (m) All interests disclosed above represent long positions in the shares of the Company.

INFORMATION ON SHARE OPTIONS

On 18 June 2002, the new share option scheme (the “New Scheme”) of the Company became effective and the share option scheme of the Company adopted in 1992 was terminated.

No share option has been granted or is outstanding under the New Scheme since its adoption.

Save as disclosed herein, at no time during the period ended 30 June 2004, the Directors and chief executives of the Company had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations required to be disclosed pursuant to the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of SFO showed that the following shareholders had relevant interests in the issued share capital of the Company:

Name of shareholder	Capacity	Number of ordinary shares held	Note	Percentage holding
Super Giant Limited	Beneficial owner	273,602,337		51.59%
Worldunity Investments Limited	Beneficial owner	98,143,020		18.51%
Tek Lee Finance And Investment Corporation Limited (“Tek Lee”)	Corporate interest	396,621,357	(a)	74.79%
South China (BVI) Limited	Corporate interest	396,621,357	(b)	74.79%
SCH	Corporate interest	396,621,357	(b)	74.79%
Mr. Ng	Corporate interest	396,621,357	(c)	74.79%

Save as disclosed above, as at 30 June 2004, the Company has not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Notes:

- (a) Tek Lee is the holding company of Super Giant Limited (“Super Giant”), Worldunity Investments Limited (“Worldunity”) and Greenearn Investments Limited (“Greenearn”) which hold shares in the Company. The 396,621,357 shares referred above include the 273,602,337 shares held by Super Giant, 98,143,020 shares held by Worldunity and 24,876,000 shares held by Greenearn.
- (b) SCH is the holding company of South China (BVI) Limited which in turn is the holding company of Tek Lee. The 396,621,357 shares referred above relate to the same parcel of shares.

- (c) Mr. Ng, director of the Company, through Parkfield Holdings Limited, Fung Shing Group Limited, Ronastar Investments Limited, Bannock Investment Limited and Earntrade Investments Limited, holds a total of 1,344,181,812 shares, being 73.72% shareholdings in SCH. According to the interests of SCH in the shares of the Company, Mr. Ng is taken to be interested in 396,621,357 shares in which SCH is interested by virtue of the SFO.
- (d) All interests disclosed above represent long positions in the shares of the Company.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period ended 30 June 2004.

AUDIT COMMITTEE

The audit committee has reviewed with the management the financial reporting matters, including the unaudited condensed financial statements, related to the preparation of the interim report for the six months ended 30 June 2004.

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 accounting period covered by this interim report in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation at the annual general meeting in accordance with the Company's Articles of Association.

On behalf of the Board
Ng Hung Sang, Robert
Chairman

Hong Kong Special Administrative Region of
The People's Republic of China,
21 September 2004