



Universal Holdings Limited

Interim Report

04

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The directors are pleased to present the Group's Interim Report and condensed accounts for the six-months ended 30th June 2004. The consolidated results and consolidated cash flow statement for the group for the six-months ended 30th June 2004, and the consolidated balance sheet as at 30th June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 16 to 32 of this report.

BUSINESS REVIEW

During the first half of the year, we principally engaged in the trading and distribution of AV equipments and components, the trading of equity securities, and the sale of software solutions for Call Contact Centers.

UHL's loss attributable to shareholders for the six months ended 30th June 2004 was HK\$316,000. This represents a decrease of HK\$16,567,000 from the last corresponding period. The Group's consolidated turnover for the period was HK\$11,872,000, a decrease of HK\$6,363,000.

Digital Broadcasting Investment

DVN (Holdings) Limited ("DVN") (HKSE: 500), remains one of the significant investments of the Group. The business landscape for DVN in China has improved with the Chinese government's continued push towards digitalization.

During the period, Motorola-Dragon Investment, Inc. ("Motorola"), a wholly owned subsidiary of Motorola, Inc., and DVN have agreed to work together to become China's leading suppliers of digital equipment and services. As part of the cooperation, Motorola has agreed to invest up to a maximum of US\$33 million (equivalent to approximately HK\$257.4 million) in four tranches over a period of two years. On 15th July 2004, the first tranche of US\$7.5 million (equivalent to approximately HK\$58.5 million) was invested into DVN by Motorola. Subsequent to this, DVN entered into a series of strategic agreements with Motorola and its subsidiaries that are designed to accelerate the successful deployment of digital broadcasting solutions to cable operators in China.

The cooperation is beneficial to both parties: with Motorola gaining access to DVN's research and development team and with DVN gaining access to Motorola's manufacturing expertise and economies of scale, thereby allowing DVN to manufacture more affordable and higher quality set top boxes. Together, DVN and Motorola will develop new products to ensure their respective market leadership.

DVN will also be able to utilize Motorola's distribution channels to sell its software outside of China, particularly in developing markets. DVN's low cost, but highly skilled engineers, enables it to produce middleware and application products at a fraction of the cost enabling it to offer a cost competitive system, platform or set-top boxes in those developing countries.

DVN believes that its strategic alliance with Motorola will enable both parties to capitalize on each other's comparative strengths so as to expedite the deployment of digital set-top boxes. In the end, DVN will distinguish itself as a leader in technology, manufacturing know how and software application in the China's digital broadcasting industry.

Communication Division

The Group's communication division continues to market its scalable, cost effective modular call center system with limited success. The competition for customer care solutions continues to increase in the PRC. During the period under review, UHL was successful in identifying a number of key accounts that hopefully will lead to successful orders fulfillment.

Securities trading

The Hong Kong economy continued to gain momentum on the back of a stronger US economic recovery and the strong rebound in domestic market. A significant improvement of market sentiment has an enabled improved trading on the HKSE. During the first half of 2004, the Group capitalized on such momentum by trading securities in the capital market and had generated a gross profit of approximately HK\$2.3 million.

Audio and Video Distribution Division

The Group's business in trading in DVD components came under increased price competition. The Group has expanded to add DVD equipment to its distribution business for the second half of the year. This new product line should bring increased business to the Group to offset some business lost in the competitive area of electronic components trading. The Group will try to expand its higher value product lines such as DVDR and digital cameras.

Prospects

UHL will continue to strengthen the audio and video components and equipment distribution through strategic investments and seek to expand its current trading operations.

As discuss above, DVN remains one of our significant investments that is engaged in the growing digital broadcasting industry in China. With Motorola as a strategic partner, both DVN and Motorola can benefit from each others expertise in their related technology.

We has rationalized our operations. The Group will seek to diversify its businesses and implement strategies that strengthen its revenue and asset base. UHL will continue to explore business opportunities and strategic acquisitions of equity interests in and out of Hong Kong. In addition, we will look for opportunities to expand our capital base in the equity and capital markets.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June 2004, the Group held cash deposits totalling HK\$9.3 million, a decrease of HK\$7.1 million compared with that of 31st December 2003. A current ratio of 1.6 and a gearing ratio, representing long term liabilities to net worth, of 0.16 as at 30th June 2004.

In addition to the internal generated cash flows, the Group also made use of short-term borrowings to finance its operations during the period. All borrowings during the period were based on market interest rate. The Group had no long-term bank loan and bank overdrafts outstanding as at period end. The Group did not have any assets pledged or charged as at 30th June 2004.

There were no significant exposure to foreign currency fluctuation. The Group will continue to rely mainly on the internal generated cash flows and borrowings to fund its operation. The Group will also rely on the realization of its assets or capital raising.

Significant investments held

There was no change in significant investments held during the period and there was no material acquisition or disposal during the period. Details of significant investment held were disclosed in the 2003 Annual Report.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

As at 30th June 2004, the Group employed a total of 6 full-time employees in Hong Kong and a work force of about 25 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel including engineering and product development staff are remunerated by monthly salary which are reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

Pending Litigation and Contingent Liabilities

The Group's had no pending litigation at 30th June 2004. The Group's pending litigation outstanding at the beginning of the period was settled during the period, as described in the 2003 Annual Report. The Group did not have any material contingent liabilities as at 30th June 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30th June 2004, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company, are as follows:

(A) The Company

Names	Notes	Number of ordinary shares of HK\$0.01 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	(i)	18,640,000	—	1,000,437,150

(B) DVN (Holdings) Limited ("DVN")

Names	Notes	Number of ordinary shares of HK\$0.10 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko	(ii)	343,000	2,040,816	158,357,940

Notes:

- (i) Kwan Wing Holdings Limited ("Kwan Wing") and Techral Holdings Limited ("Techral"), a subsidiary of Kwan Wing, beneficially owned 360,399,000 and 640,038,150 ordinary shares in the Company, respectively. Mr. Ko has 100% direct interest in Kwan Wing and approximately 96% beneficial interest in Techral.

- (ii) 118,403,418 ordinary shares in DVN are directly held by Prime Pacific International Limited (“Prime Pacific”), which is owned as to 67% and 33% by Gold Pagoda Incorporated (“Gold Pagoda”) and Prime Gold International Limited (“Prime Gold”), respectively.

Prime Gold is owned as to 82.45% by Kwan Wing.

Gold Pagoda is an indirect wholly-owned subsidiary of the Company which in turn is controlled by Mr. Ko.

31,032,522 ordinary shares in DVN are held directly by Universal Appliances Limited, which is wholly-owned subsidiary of the Company.

2,956,000 ordinary shares in DVN are held by All Mark Limited, which is an indirect wholly-owned subsidiary of the Company.

2,822,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly owned by Mr. Ko.

3,144,000 ordinary shares in DVN are held by Kwan Wing.

2,040,816 ordinary shares in DVN are held by the spouse of Mr. Ko.

- (iii) Million Way Enterprises Limited, an indirect wholly-owned subsidiary of the Company, also holds US\$15,000,000 preference shares issued by DVN (Group) Limited, a wholly owned subsidiary of DVN. These preference shares are exchangeable to approximately 26,420,454 ordinary shares of DVN upon exchange and are subject to adjustments.

(C) Rights to acquire ordinary shares of DVN

Movements of the share options of DVN granted to a director of the Company are as follows:

Directors	Date of share options granted	Number of share options as at 1st January 2004	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options as at 30th June 2004	Exercise period	Exercise price per share
Mr. Ko	23/7/2002	3,000,000	—	—	3,000,000	24/7/2002 — 23/7/2005	1.470
	10/12/2003	—	450,000	—	450,000	1/1/2004 — 31/12/2006	0.824
		3,000,000	450,000	—	3,450,000		

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Ko in trust for the Company, as at 30th June 2004, none of the directors, the chief executive (including their spouse and children under 18 years of age) or their associates had any other beneficial interests in the shares of the Company and its associated corporation (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 30th June 2004, save as disclosed below and under the section "Directors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures of the Company or any Associate Corporation" above, no other person had registered any substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO:

a. Ordinary shares of HK\$0.01 each in the Company

Name	Number of shares	
	Direct interests	Indirect interests
Blue World Investments Limited	82,654,000	—
Leung Chi Yan (note)	—	82,654,000

Note: The interests are held by Blue World Investments Limited.

b. Convertible preference shares of HK\$0.01 each in the Company

Name	Number of shares	
	Direct interests	Indirect interests
Blue World Investments Limited	240,760,000	—
Leung Chi Yan (note)	—	240,760,000

Note: The interests are held by Blue World Investments Limited. These shares are convertible to 240,760,000 ordinary shares of the Company, subject to adjustments.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company, is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") at any time during the six-month period ended 30th June 2004, save that the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Associations of the Company.

AUDIT COMMITTEE

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

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude and appreciation to all management and staff members for their dedication, contributions and hard work for the period.

By Order of the Board
Ko Chun Shun, Johnson
Chairman

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2004

	Notes	Six months ended 30th June	
		2004	2003
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover	2	11,872	18,235
Cost of sales		(7,560)	(17,154)
Gross profit		4,312	1,081
Other revenues		3,836	7,789
Distribution expenses		(542)	(633)
Administrative expenses		(6,946)	(10,038)
Unrealised holding gain/(loss) on short-term investments		9,084	(6,746)
Other operating expenses		(3,605)	—
Operating profit	3	6,139	(8,547)
Finance costs		(1,483)	(1,966)
Share of results of an associate company		(4,972)	(6,370)
Loss before taxation		(316)	(16,883)
Taxation	5	—	—
Loss after taxation		(316)	(16,883)
Minority interests		—	—
Loss for the period		(316)	(16,883)
Loss per share	6	HK Cents 0.01	HK Cents 0.61

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June 2004

	Notes	30th June 2004 (Unaudited) HK\$'000	31st December 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets	7	2,521	2,560
Intangible assets	8	1,633	1,685
Interest in associated company	9	10,529	15,837
Investment securities	10	36,000	36,000
Other assets	11	4,533	4,533
		55,216	60,615
CURRENTS ASSETS			
Inventories		1,622	901
Trade receivables	12	6,992	2,765
Preference dividend receivables		18,891	15,984
Prepayments, deposits and other receivables		4,975	31,973
Short-term investments		10,817	4,605
Cash and bank balances		9,335	16,425
		52,632	72,653
CURRENT LIABILITIES			
Trade payables	13	607	63
Other payables and accrued liabilities		33,717	39,365
Short-term borrowings	14	—	20,000
		34,324	59,428
NET CURRENT ASSETS			
		18,308	13,225
TOTAL ASSETS LESS CURRENT LIABILITIES			
		73,524	73,840
CAPITAL AND RESERVES			
Issued capital	16	35,151	35,151
Reserves		28,373	28,689
Shareholder's funds		63,524	63,840
Minority interests		—	—
		63,524	63,840
NON-CURRENT LIABILITIES			
Amount due to a fellow subsidiary	15	10,000	10,000
		73,524	73,840

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2004

	Six months ended 30th June	
	2004	2003
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	12,910	(12,286)
Net cash inflow from investing activities	—	3
Net cash (outflow)/inflow from financing	(20,000)	24,661
(Decrease)/increase in cash and cash equivalents	(7,090)	12,378
Cash and cash equivalents at 1st January	16,425	4,267
Cash and cash equivalents at 30th June	9,335	16,645

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2004

	Ordinary share capital	Preference share capital	Share premium	Merger reserve	Currency translation	Accumulated deficits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	32,743	2,408	172,353	860,640	(171)	(1,004,133)	63,840
Net loss for the period	—	—	—	—	—	(316)	(316)
At 30th June 2004	32,743	2,408	172,353	860,640	(171)	(1,004,449)	63,524

	Ordinary share capital	Preference share capital	Share premium	Merger reserve	Currency translation	Accumulated deficits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	27,743	2,408	162,789	860,640	(171)	(934,087)	119,322
Net loss for the period	—	—	—	—	—	(16,883)	(16,883)
At 30th June 2003	27,743	2,408	162,789	860,640	(171)	(950,970)	102,439

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These condensed interim accounts should be read in conjunction with the 2003 Annual Report.

The accounting policies adopted and methods of computation used in the preparation of these financial statements are consistent with those used in the Group’s Annual Report for the year ended 31st December 2003.

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

2. Segment information

An analysis of the Group's revenue and results for the period by business segments and by geographical segments, are as follows:

By Business Segments:

	Six months ended 30th June 2004			Group
	Home Audio	Share Trading	IP Telephony	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenues	2,844	5,241	3,787	11,872
Segment results	(1,442)	1,014	1,172	744
Preference dividend income				2,906
Unallocated costs				2,489
Operating profit				6,139

	Six months ended 30th June 2003			
	Home Audio	Financial Market Information	IP Telephony	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenues	15,580	—	2,655	18,235
Segment results	(171)	—	(344)	(515)
Preference dividend income				2,906
Gain for disposal of short term investment				4,057
Unallocated costs				(14,995)
Operating loss				(8,547)

By Geographical Segments:

	Six months ended 30th June 2004		
	Hong Kong	Mainland China	Group
	HK\$'000	HK\$'000	HK\$'000
Revenues	8,085	3,787	11,872
Segment results	(428)	1,172	744
Preference dividend income			2,906
Unallocated costs			2,489
Operating loss			6,139

	Six months ended 30th June 2003		
	Hong Kong	Mainland China	Group
	HK\$'000	HK\$'000	HK\$'000
Revenues	15,580	2,655	18,235
Segment results	(171)	(344)	(515)
Preference dividend income			2,906
Gain for disposal of short term investment			4,057
Unallocated costs			(14,995)
Operating loss			(8,547)

There are no sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

3. Operating loss

Operating loss is stated after charging the following:

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Charging		
Depreciation of fixed assets	473	1,305
Amortisation of goodwill	52	94
Amortisation of development costs	—	185
Provision for doubtful debts — net	3,308	—

4. Staff costs

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Salaries	1,581	3,452
MPF Contributions	35	37
	1,616	3,489

5. Taxation

Hong Kong profits tax has not been provided (2003: nil) as the Group did not generate any assessable profits arising in Hong Kong for the period. Overseas profits tax has not been provided (2003: nil) as the foreign subsidiaries did not generate any assessable profits attributable to their operations in their respective countries of operation or are still exempted from income tax during the period.

No deferred tax has been provided for the Company and the Group because there were no significant timing differences at the balance sheet date.

6. Loss per share

The calculation of basic loss per share for the period ended 30th June 2004 is based on the net loss attributable to shareholders of HK\$316,000 (2003: net loss of HK\$16,883,000) and the weighted average number of 3,274,293,157 (2003: 2,774,293,157) ordinary shares deemed to have been in issue during the period.

There were no dilutive potential ordinary shares in 2003 and 2004 and therefore, no diluted loss per share for the period is shown.

7. Fixed Assets

Six months ended 30th June 2004

	<i>HK\$'000</i>
Fixed Assets:	
Opening net book amount	2,560
Additions	479
Disposals	(45)
Depreciation	(473)
	<hr/>
Closing net book amount	<u>2,521</u>

8. Intangible Assets

Six Months ended 30th June 2004	Development		Total
	Goodwill	Costs	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening net book amount	1,685	—	1,685
Amortisation charge	(52)	—	(52)
	<hr/>		
Closing net book amount	<u>1,633</u>	—	<u>1,633</u>
At 30th June 2004			
Cost	2,075	1,415	3,490
Accumulated amortisation	(442)	(1,415)	(1,857)
	<hr/>		
Net book amount	<u>1,633</u>	—	<u>1,633</u>
At 31st December 2003			
Cost	2,075	1,415	3,490
Accumulated amortisation	(390)	(1,415)	(1,805)
	<hr/>		
Net book amount	<u>1,685</u>	—	<u>1,685</u>

9. Interests in associated company

	30th June 2004	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	2,821	7,793
Goodwill on acquisition of associated companies less amortization	8,247	8,470
Amounts due to associated companies	(539)	(426)
	<u>10,529</u>	<u>15,837</u>
Market value of listed investments	<u>198,345</u>	<u>126,917</u>
Investment at cost:		
Listed shares, in Hong Kong	276,514	276,514
Unlisted shares, in the PRC	1,636	1,636
	<u>278,150</u>	<u>278,150</u>

Particulars of the significant associated companies are as follows:

Name	Country/ Place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly	Principal activities and place of operation
(i) DVN Group				
DVN (Holdings) Limited	Bermuda	HK\$45,733,449 Ordinary	24.78%	Investment holding
DVN (Group) Limited	British Virgin Islands	US\$10 ordinary US\$15,000,000 preference	24.78%	Investment holding
DVN (Management) Limited	Hong Kong	HK\$2 ordinary	24.78%	Provision of administrative services in Hong Kong
DVN Technology Limited	Hong Kong	HK\$2 ordinary	24.78%	Design, integration and installation of digital broadcasting equipment and development of related software and products in Hong Kong and Southeast Asian countries
Telequote Data International Limited	Hong Kong	HK\$10,000 ordinary	24.78%	Provision of international financial market information and selective consumer data in Hong Kong

Name	Country/ Place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly	Principal activities and place of operation
DVN Technology (Shenzhen) Co. Limited	People's Republic of China	HK\$6,000,000	24.78%	Development of hardware and software in relation to digital broadcasting in the PRC
DVB Technology (Suzhou) Company Limited	People's Republic of China	RMB100,000,000	17.35%	Trading of digital broadcasting equipment and related products in the PRC
Digital Video Networks Company Limited	People's Republic of China	US\$8,000,000	24.78%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC
(ii) 北京電發網博科技 有限公司	People's Republic of China	RMB5,000,000	35.00%	Provision of IP telephone services

Extracts of the operating results and financial position of the DVN Group, a principal associated company group of the Group, which are based on the accounts are as follows:

Operating results for the period/year

	6 months ended 30th June 2004 (Unaudited) <i>HK\$'000</i>	Year ended 31st December 2003 (Audited) <i>HK\$'000</i>
Turnover	59,366	73,252
Loss for the period/year	16,872	134,253

Summary of balance sheet

	30th June 2004 <i>HK\$'000</i>	31st December 2003 <i>HK\$'000</i>
Fixed assets	56,443	61,768
Intangible assets	27,667	27,752
Investment in a jointly controlled entity	7,120	7,717
Current assets	152,528	158,222
Current liabilities	(112,693)	(109,692)
Non current liabilities	(98)	(116)
Minority interests	(118,241)	(118,263)
Shareholders' equity	12,726	27,388

10. Investment securities

	30th June 2004	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed shares, at cost		
— outside Hong Kong (<i>note a</i>)	23,414	23,414
Unlisted shares, at cost		
— Preference share outside Hong Kong (<i>note b</i>)	143,508	143,508
	166,922	166,922
Less: provision for impairment loss		
— Listed shares	(23,414)	(23,414)
— Unlisted shares	(107,508)	(107,508)
	36,000	36,000
Market value of listed investments (<i>note a</i>)	—	—

(a) The listed equity investment outside Hong Kong represents the holding of 1,500,000 shares (representing 6.8% of the common stock) in a company which was incorporated in the United States of America and was listed on the National Association of Securities Dealer Over-The-Counter Bulletin Board ("OTCBB"). The investee company has been temporarily unlisted on OCTBB since 3rd October 1998. Full provision against the cost of these shares was made. The market value of the investment at 3rd October 1998, the date on which the investee company was delisted on the OTCBB, was US\$3 per share.

(b) The Group held 15,000,000 non-voting exchangeable preference shares of DVN (Group) Limited, an associated company, at HK\$143,508,000. These preference shares are exchangeable to approximately 26,420,454 ordinary shares of DVN, a listed associated company, upon conversion at HK\$4.4 per share and are subject to adjustment. Fixed cumulative cash dividend on preference shares are receivable at a rate of 5% per annum on the nominal value amount of each preference share for each year. Dividend income receivable at 30th June 2004 amounted to HK\$18,891,000 (at 31st December 2003: HK\$15,984,000).

The provision for impairment loss for this investment was approximately HK\$107,508,000 at 30th June 2004 and at 31st December 2003.

11. Other assets

	30th June 2004	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposit for investment in a joint venture	2,468	2,468
Club debentures	2,065	2,065
	<u>4,533</u>	<u>4,533</u>

12. Trade receivables

At 30th June 2004, the ageing analysis of the trade receivables is as follows:

	0-3 months	4-6 months	Over 6 months	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 30th June 2004	6,704	288	—	6,992
Balance at 31st December 2003	750	1,716	299	2,765

The majority of the Group's sales are on credit with credit terms of 30-90 days.

13. Trade payables

At 30th June 2004, the ageing analysis of the trade payables is as follows:

	0-3 months	4-6 months	Over 6 months	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 30th June 2004	545	30	32	607
Balance at 31st December 2003	30	—	33	63

14. Short term borrowings

	30th June 2004	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan — secured	—	20,000

The short-term loan is secured against certain shares of an associated company of the Group, bears interests at 17% rate per annum, and was repaid in February 2004.

15. Amount due to a fellow subsidiary

The amount due to a fellow subsidiary bears interest at prime lending rate plus 2.5% per annum (2003: prime lending rate plus 2.5%). The balance is unsecured and is not expected to be repaid within 1 year.

At 31st December 2003, there was an amount of HK\$50,715,000 due to a fellow subsidiary which is also a minority shareholder of a subsidiary. The balance was presented as a net-off against a debit balance arising from the same minority shareholder of that subsidiary of the same amount. The balance is unsecured, interest-free and has no fixed terms of repayment.

16. Share capital

	Number of ordinary shares of HK\$0.01 each		Number of preference shares of HK\$0.01 each		Amount HK\$'000
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000	
Authorised:					
At 30th June 2004/ 31st December 2003	5,000,000	50,000	240,760	2,408	52,408
Issued and fully paid:					
At 30th June 2004/ 31st December 2003	3,274,293	32,743	240,760	2,408	35,151

Preference Shares

Preference shareholders are entitled to convert a specific number of their preference shares into ordinary shares of the Company on a one-for-one basis (subject to adjustments) during the specified periods. The preference shareholders are also entitled to receive a non-cumulative cash dividend which will be paid at the same rate and at the same time as any dividend declared by the Company in respect of the ordinary shares.

Share Option

Pursuant to the 10-year term share option scheme (“Option Scheme”) adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Unless with shareholder’s approval, the maximum number of shares options can be granted under the Option Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the Option Scheme was adopted.

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in SEHK’s daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the SEHK’s daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of directors of the Company.

During the period, the Company did not grant any share options and there was no outstanding share option as at 30th June 2004.

17. Contingent liabilities

Save for the information disclosed in note 31 to the 2003 Annual Report, the Group did not have any material contingent liabilities as at 30th June 2004.

18. Commitments

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

	30th June 2004	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and building:		
Not later than one year	313	313
Later than one year and not later than five years	156	313
	<u>469</u>	<u>626</u>
Equipment:		
Not later than one year	381	416
Later than one year and not later than five years	168	340
	<u>549</u>	<u>756</u>

Financial Commitments

The Company had no significant capital commitment at 30th June 2004.

19. Related party transaction and connected transactions

	Six months ended 30th June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income from an associated company	2,906	2,906

20. Subsequent events

On 18th May 2004, DVN (Holdings) Limited ("DVN"), an associated company of the Company, entered into a subscription agreement with Motorola-Dragon Investment, Inc. ("Subscriber"), a wholly-owned subsidiary of Motorola, Inc. pursuant to which the Subscriber has conditionally agreed to subscribe for and DVN has conditionally agreed to allot and issue to the Subscriber new shares in DVN in up to four tranches for a cash consideration if all four tranches are subscribed for of up to a maximum of US\$33 million (equivalent to approximately HK\$257.4 million). The subscription will be made in up to four tranches subject to certain terms and conditions as set out in the DVN's circular dated 23rd June 2004.

Subsequent to 30 June 2004, the first tranche of the subscription agreement was completed on 15th July 2004 and 58.5 million of DVN shares were issued for US\$7.5 million (equivalent to approximately HK\$58.5 million).