



# **K & P International Holdings Limited**

(Incorporated in Bermuda with limited liability)

Interim Report 2004

## UNAUDITED INTERIM RESULTS

The Board of Directors (the “Directors”) of K & P International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 together with the comparative figures for the previous period as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>For the six months ended 30 June</b>	
		<b>2004</b>	<b>2003</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$</b>	<b>HK\$</b>
	<i>Notes</i>		
Turnover		<b>153,500,997</b>	116,182,871
Cost of sales		<b>(115,833,033)</b>	(90,315,209)
Gross profit		<b>37,667,964</b>	25,867,662
Other revenue		<b>2,682,383</b>	810,106
Selling and distribution costs		<b>(14,877,042)</b>	(11,612,773)
Administrative expenses		<b>(10,281,572)</b>	(9,486,343)
Other operating income/(expenses), net	3	<b>1,612,185</b>	(654,462)
Profit from operating activities	4	<b>16,803,918</b>	4,924,190
Finance costs	5	<b>(3,047,513)</b>	(2,086,370)
Share of loss of an associate		<b>(2,348,713)</b>	(104,713)
Profit before tax		<b>11,407,692</b>	2,733,107
Tax	6	<b>(1,216,192)</b>	(366,733)
Net profit from ordinary activities attributable to shareholders		<b>10,191,500</b>	2,366,374
Dividends	7	<b>Nil</b>	Nil
Earnings per share	8		
– Basic		<b>4.04 cents</b>	0.95 cents
– Diluted		<b>3.97 cents</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2004 (Unaudited) HK\$	31 December 2003 (Audited) HK\$
	Notes		
NON-CURRENT ASSETS			
Fixed assets		76,782,558	80,452,936
Intangible assets		6,925,000	4,186,809
Deposit paid for purchases of leasehold land		4,720,000	4,720,000
Investment in an associate		25,285,647	24,401,113
Long term investments		3,180,000	3,408,450
		<b>116,893,205</b>	117,169,308
CURRENT ASSETS			
Inventories		43,824,044	36,169,926
Prepayments, deposits and other receivables		23,972,179	13,785,522
Trade and bills receivables	9	62,307,091	49,055,953
Tax recoverable		–	226,543
Pledged time deposits		8,241,076	8,238,270
Cash and cash equivalents		18,299,985	20,714,066
		<b>156,644,375</b>	128,190,280
CURRENT LIABILITIES			
Interest-bearing bank and other loans		61,561,766	45,583,450
Trade payables	10	45,084,260	38,681,433
Accrued liabilities and other payables		31,559,751	25,199,598
Convertible loan notes	11	6,002,576	–
Fixed rate loan notes	11	–	10,639,339
Tax payable		900,718	337,218
		<b>145,109,071</b>	120,441,038
NET CURRENT ASSETS		<b>11,535,304</b>	7,749,242
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>128,428,509</b>	124,918,550
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans		5,698,641	1,227,680
Long term portion of finance lease payables		5,160,217	5,404,522
Deferred tax liabilities		2,813,868	2,424,662
Convertible loan notes	11	–	11,189,262
		<b>13,672,726</b>	20,246,126
		<b>114,755,783</b>	104,672,424
CAPITAL AND RESERVES			
Issued capital		25,250,480	25,250,480
Reserves		89,505,303	79,421,944
		<b>114,755,783</b>	104,672,424

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Issued share capital HK\$	Share premium account HK\$	Warrant subscription reserve HK\$	Contributed surplus HK\$	Fixed asset revaluation reserve HK\$	Exchange fluctuation reserve HK\$	Retained profits HK\$	Total HK\$
At 1 January 2004	25,250,480	49,761,281	-	660,651	6,178,574	(920,411)	23,741,849	104,672,424
Exchange realignment	-	-	-	-	-	53,143	-	53,143
Movement in fixed asset revaluation reserve upon disposal of fixed assets	-	-	-	-	(161,284)	-	-	(161,284)
Net gains and losses not recognised in the consolidated profit and loss account	-	-	-	-	(161,284)	53,143	-	(108,141)
Net profit for the period	-	-	-	-	-	-	10,191,500	10,191,500
<b>At 30 June 2004</b>	<b>25,250,480</b>	<b>49,761,281</b>	<b>-</b>	<b>660,651</b>	<b>6,017,290</b>	<b>(867,268)</b>	<b>33,933,349</b>	<b>114,755,783</b>
At 1 January 2003	25,000,480	49,611,281	1,389,475	660,651	4,973,872	(528,991)	20,201,927	101,308,695
Exchange realignment	-	-	-	-	-	(110,165)	-	(110,165)
Movement in fixed asset revaluation reserve upon disposal of fixed assets	-	-	-	-	-	-	-	-
Net gains and losses not recognised in the consolidated profit and loss account	-	-	-	-	-	(110,165)	-	(110,165)
Net profit for the period	-	-	-	-	-	-	2,366,374	2,366,374
<b>At 30 June 2003</b>	<b>25,000,480</b>	<b>49,611,281</b>	<b>1,389,475</b>	<b>660,651</b>	<b>4,973,872</b>	<b>(639,156)</b>	<b>22,568,301</b>	<b>103,564,904</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$
Net cash inflow from operating activities	<b>3,646,414</b>	2,678,799
Net cash outflow from investing activities	<b>(10,454,301)</b>	(25,294,123)
Net cash inflow from financing activities	<b>1,170,748</b>	29,753,528
Increase/(decrease) in cash and cash equivalents	<b>(5,637,139)</b>	7,138,204
Cash and cash equivalents at beginning of period	<b>20,714,066</b>	14,554,390
Effect of foreign exchange rate changes, net	<b>14,858</b>	(203,149)
Cash and cash equivalents at end of period	<b>15,091,785</b>	21,489,445
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>10,299,770</b>	15,165,183
Time deposits	<b>8,000,215</b>	8,127,028
Bank overdrafts	<b>(3,208,200)</b>	(1,802,766)
	<b>15,091,785</b>	21,489,445

## NOTES TO FINANCIAL STATEMENTS

### 1. Accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Z3Btified Public Accountants ("HKICPA") (formerly known as Hong Kong Society of Accountants ("HKSA")) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of presentation used in the preparation of the interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2003.

### 2. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the electronic and related components and parts segment comprise the manufacture and sale of electronic and related components and parts;
- (b) the consumer electronic products segment comprise the manufacture and sale of consumer electronic products comprising electronic calculators, alarm clocks and liquid crystal display products; and
- (c) the corporate and others segment comprise the Group's long term investments, together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the cost of sales.

## 2. Segment information *(Continued)*

### (a) Business segments

The following tables present revenue, profit/(loss) and certain expenditure information for the Group's business segments:

Group	For the six months ended 30 June 2004				
	Electronic and related components and parts	Consumer electronic products	Corporate and others	Eliminations	Consolidated
	(Unaudited) HK\$	(Unaudited) HK\$	(Unaudited) HK\$	(Unaudited) HK\$	(Unaudited) HK\$
Segment revenue:					
Sales to external customers	85,405,065	68,095,932	-	-	153,500,997
Intersegment sales	2,538,311	-	-	(2,538,311)	-
Other revenue	2,557,231	92,509	1,400	-	2,651,140
Total	<u>90,500,607</u>	<u>68,188,441</u>	<u>1,400</u>	<u>(2,538,311)</u>	<u>156,152,137</u>
Segment results	<u>7,931,805</u>	<u>4,126,471</u>	<u>(399,437)</u>		11,658,839
Interest income					31,243
Gain on sale of long term investments, net					<u>5,113,836</u>
Profit from operating activities					16,803,918
Finance costs					(3,047,513)
Share of loss of an associate					<u>(2,348,713)</u>
Profit before tax					11,407,692
Tax					<u>(1,216,192)</u>
Net profit from ordinary activities attributable to shareholders					<u>10,191,500</u>
Other segment information:					
Depreciation and amortisation	7,908,783	3,302,984	290,759	-	11,502,526
Capital expenditure	<u>6,186,847</u>	<u>6,694,026</u>	<u>97,485</u>	-	<u>12,978,358</u>

## 2. Segment information (Continued)

### (a) Business segments (Continued)

For the six months ended 30 June 2003					
Group	Electronic and related components and parts (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Eliminations (Unaudited) HK\$	Consolidated (Unaudited) HK\$
Segment revenue:					
Sales to external customers	64,769,861	51,413,010	-	-	116,182,871
Intersegment sales	2,155,378	-	-	(2,155,378)	-
Other revenue	665,714	70,801	3,076	-	739,591
Total	<u>67,590,953</u>	<u>51,483,811</u>	<u>3,076</u>	<u>(2,155,378)</u>	<u>116,922,462</u>
Segment results	<u>282,713</u>	<u>5,865,676</u>	<u>(1,294,714)</u>		4,853,675
Interest income					70,515
Gain on sale of long term investments, net					-
Profit from operating activities					4,924,190
Finance costs					(2,086,370)
Share of loss of an associate					(104,713)
Profit before tax					2,733,107
Tax					(366,733)
Net profit from ordinary activities attributable to shareholders					<u>2,366,374</u>
Other segment information:					
Depreciation and amortisation	8,458,546	2,969,849	514,514	-	11,942,909
Capital expenditure	<u>3,260,430</u>	<u>2,423,285</u>	<u>4,644</u>	<u>-</u>	<u>5,688,359</u>

## 2. Segment information (Continued)

### (b) Geographical segments

The following table presents revenue, and certain expenditure information for the Group's geographical segments:

Group	Segment revenue	Other segment information		
	Sales to external customers	Capital expenditure		
	For the six months ended 30 June			
	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$
Hong Kong	53,774,733	41,083,220	3,019,638	333,238
Mainland China	7,461,727	5,750,893	8,372,217	5,347,551
Total in the PRC	61,236,460	46,834,113	11,391,855	5,680,789
Japan	16,375,004	14,017,114	–	–
Other Asian countries*	8,926,876	6,792,886	26,503	7,570
Total in Asia	86,538,340	67,644,113	11,418,358	5,688,359
Germany	30,844,219	21,910,061	–	–
Other European countries **	25,771,308	22,909,268	–	–
Total in Europe	56,615,527	44,819,329	–	–
North America	6,570,070	1,928,009	1,560,000	–
Others***	3,777,060	1,791,420	–	–
Consolidated	153,500,997	116,182,871	12,978,358	5,688,359

\* Other Asian countries mainly comprise Taiwan, Singapore, Malaysia, Thailand, Indonesia and Korea.

\*\* Other European countries mainly comprise Italy, United Kingdom, France, Netherlands, Austria, Sweden and Spain.

\*\*\* Others mainly comprise South America, Australia and New Zealand.

### 3. Other operating income/(expenses), net

	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$
Gain on sale of long term investments, net	5,113,836	—
Provision for doubtful debts, net	(975,681)	—
Loss on disposal of fixed assets	(1,867,195)	—
Others	(658,775)	(654,462)
	<u>1,612,185</u>	<u>(654,462)</u>

### 4. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$
Depreciation:		
Owned fixed assets	8,665,079	9,437,456
Leased fixed assets	2,275,638	2,268,988
	<u>10,940,717</u>	<u>11,706,444</u>
Amortisation of intangible assets	561,809	236,465
Foreign exchange losses, net	—	249,324
and after crediting:		
Interest income	31,243	70,515
Foreign exchange gains, net	91,560	—
	<u>123,603</u>	<u>70,515</u>

### 5. Finance costs

	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$
Interest expenses on bank loans and overdrafts wholly repayable within five years	1,294,970	1,109,275
Interest on finance leases	568,298	541,326
Interest on convertible loan notes and fixed rate loan notes	1,184,245	435,769
	<u>3,047,513</u>	<u>2,086,370</u>

**6. Tax**

	<b>2004</b> <b>(Unaudited)</b> <b>HK\$</b>	2003 (Unaudited) HK\$
Group:		
Current – Hong Kong		
Charge for the period	<b>826,986</b>	366,733
Overprovision in prior periods	–	–
Current – elsewhere	–	–
Deferred	<b>389,206</b>	–
Total tax charge for the period	<b><u>1,216,192</u></b>	<u>366,733</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. Tax 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. Dividends**

At a meeting of the board of directors held on 27 September 2004, the directors resolved not to pay an interim dividend to shareholders (2003: Nil).

**8. Earnings per share**

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$10,191,500 (2003: HK\$2,366,374), and on the weighted average of 252,504,800 (2003: 250,004,800) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK\$10,191,500. The weighted average number of ordinary shares used in the calculation is the 252,504,800 ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 3,952,588 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

In the calculation of the diluted earnings per share, the effect of the convertible loan notes outstanding during the period was not taken into account as they had an anti-dilutive effect on the basic earnings per share for the period.

A diluted earnings per share amount for the period ended 30 June 2003 had not shown as the share options, warrants and convertible loan notes outstanding during last period had an anti-dilutive effect on the basic earnings per share for last period.

## 9. Trade and bills receivables

The Group's trading terms with its customers are largely on credit. Invoices are normally payable within 60 days of issuance, except for certain well established customers, where the terms are extended from 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivable and has a credit control policy to minimize credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade and bills receivables at the balance sheet date, based on invoice date and net of provision, is as follows:

	<b>30 June 2004 (Unaudited) HK\$</b>	<b>Group 31 December 2003 (Audited) HK\$</b>
Within 90 days	<b>51,002,000</b>	40,749,619
Between 91 to 180 days	<b>7,951,072</b>	5,861,830
Over 180 days	<b>3,354,019</b>	2,444,504
	<b><u>62,307,091</u></b>	<b><u>49,055,953</u></b>

## 10. Trade payables

An aged analysis of the accounts payable is as follows:

	<b>30 June 2004 (Unaudited) HK\$</b>	<b>Group 31 December 2003 (Audited) HK\$</b>
Within 90 days	<b>35,802,749</b>	35,958,662
Between 91 to 180 days	<b>6,541,999</b>	2,717,528
Over 180 days	<b>2,739,512</b>	5,243
	<b><u>45,084,260</u></b>	<b><u>38,681,433</u></b>

## 11. Convertible loan notes and fixed rate loan notes

	<b>30 June 2004 (Unaudited) HK\$</b>	<b>31 December 2003 (Audited) HK\$</b>
Convertible loan notes	<b>6,002,576</b>	11,189,262
Fixed rate loan notes	<b>—</b>	10,639,339
	<b>6,002,576</b>	21,828,601
Portion classified as current liabilities	<b>(6,002,576)</b>	(10,639,339)
	<b>—</b>	11,189,262

During the period, on 17 March 2004, the fixed rate loan notes were redeemed by the Company at US\$1,385,100 (equivalent to approximately HK\$10,803,780).

During the period, on 30 June 2004, part of the convertible loan notes with an aggregate principal amount of US\$641,250 (equivalent to approximately HK\$5,001,750) were redeemed by the Company at US\$770,053 (equivalent to approximately HK\$6,006,413).

## 12. Post balance sheet event

On 10 July 2004, all of the 13,000,000 outstanding share options were exercised resulting in the issue of 13,000,000 additional ordinary shares of the Company and additional share capital of HK\$1,300,000 and share premium of HK\$780,000.

## 13. Contingent liabilities

	<b>30 June 2004 (Unaudited) HK\$</b>	<b>Group 31 December 2003 (Audited) HK\$</b>
Bills discounted with recourse	<b>344,916</b>	5,721,820

## 14. Approval of the financial statements

The financial statements were approved by the board of directors on 27 September 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the period ended 30 June 2004, the Group's turnover reached HK\$153.5 million, representing a 32.1% increase over the previous period. Overall gross profit margin was also improved and increased from approximately HK\$25.9 million in the previous period to approximately HK\$37.7 million this period. Net profit attributable to shareholders was approximately HK\$10.2 million (2003: HK\$2.4 million).

Basic earnings per share for the period ended 30 June 2004 amounted to HK4.04 cents (2003: HK0.95 cents) per share.

### Business Review and Future Plan

The economic climate during the period under review has been favorable to most businesses. Orders from customers for our products have remained strong since last financial year. As a result, the Group achieved a remarkable growth in turnover and earnings in the period under review.

The products of the electronic and related components and parts segment are major critical components and parts for high value consumer products. The new products have been well accepted by our customers and have brought us fruitful results. We are pleased to report that segmental result of the electronic and related components and parts segment has improved by approximately HK\$7.6 million from last corresponding financial period.

In the latter half of the period under review, we set up a new manufacturing plant in Zhongshan, PRC for the manufacturing of keypads for high value consumer electronics products. We expect the manufacturing plant could start commercial production in the last quarter of the current financial year and hence to cope with the increased demand of our keypad products from the customers

The consumer electronic products segment had developed a number of new models for its product lines and have been accepted by our customers favorably. We have expanded our marketing team for handling its broadened customer base. Sales turnover of this segment has been growing since previous years and has increased by 32.4% as compared with the last corresponding financial period.

The purchase prices of certain raw materials such as plastic have increased. In order to lessen the effect of rising product production costs, we have continued our strategy of implementing cost control and reduction measures and improving our production efficiency. As a result, the overall impact of raw material cost increases on our gross profit margin is not significant.

We are pleased to report that the orders from customers for each segment grows healthily. The global economy has been improving since last year and the growth trend is anticipated to continue in the foreseeable future. Therefore, we expect that the Group's overall sales turnover for the financial year 2004 would achieve a healthy growth from last financial year.

In 2002, we entered into an agreement with a third party to acquire a piece of land in Zhongshan, the PRC. The purchase transaction would be completed in the latter part of 2004. In order to cope with the increasing customers' demand, we are planning to set up new manufacturing facility on this land in the future.

## **Investments**

### *Investment in an associate*

The manufacturing plant of the associate company YOUEAL TTI Limited in Tianjin, the PRC is set up for the manufacturing and sale of mobile phone keypads and has started its commercial production in late 2003. The plant is currently producing keypads for several renowned mobile phones manufacturers. However, due to low sales turnover and unexpected production yield loss, the associate has reported a loss in the period under review. Our share of the associate's net loss for the current period amounted to approximately HK\$2.3 million. We anticipate that with increased orders from customers and improvement in production efficiency, the operating results of the associate will improve.

During the period in February 2004, we made a further capital injection of approximately HK\$3.2 million into the associate, after which our capital contribution commitment of US\$4.1 million has been fulfilled.

### *Other investments*

On 1 February 2004, one of our unlisted equity investments with a carrying value of approximately HK\$0.3 million was converted into shares of an overseas listed company. We disposed of these converted shares during 31 March to 6 April 2004 for an aggregated cash consideration of approximately HK\$5.4 million, giving rise to a net gain of approximately HK\$5.1 million. This unlisted equity investment was acquired in March 2002, when we were invited by an overseas customer to subscribe for their new shares that were issued for raising working capital to finance their operations. We decided to dispose of this investment as it is no longer a direct investment in our customer.

## Financial Review

The following highlights the Group's results for the period ended 30 June 2004.

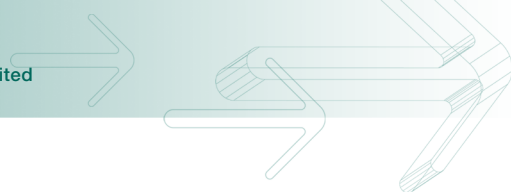
- Turnover increased by 32.1% from the prior period to HK\$153.5 million for the period
- Gross profit margin has been improved from 22.3% for 2003 to 24.5% for the period
- Profit from operating activities before the finance costs and the share of the results of an associate was HK\$16.8 million, improving by HK\$11.9 million from last financial period
- Gain on disposal of an unlisted investment was approximately HK\$5.1 million
- Finance costs increased by approximately HK\$1.0 million from last period to HK\$3.05 million
- Share of loss of an associate was HK\$2.3 million
- Net profit for the period was HK\$10.2 million, improved by 3.3 times as compared to last period

The Group's electronic and related components and parts segment comprises manufacture and sale of keypads, rubber parts and plastic parts, and liquid crystal displays. In the period under review, sales turnover of this segment has increased by approximately 31.9% as compared with the previous financial period. On the other hand, the consumer electronic product segment has achieved approximately 32.4% increase in sales turnover from the previous financial period.

The improvement in the gross profit margin for the period under review is due to better cost control.

With the increases in both turnover and gross profit margin, the group's operating profit before the finance costs and the share of an associate improved remarkably by HK\$11.9 million.

The Group's total finance costs for the period is HK\$3.05 million, of which approximately HK\$1.29 million interest is related to the fixed rate loan notes and convertible loan notes issued in the prior year for raising funds to finance our investment in the associate.



## **Liquidity and Financial Resources**

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers and other financial institutions in Hong Kong.

The Group currently has aggregate composite banking facilities of approximately HK\$90.5 million with various banks and financial institutions. The total borrowings from banks and financial institutions include long term loans, finance leases, overdraft, import and export loans, amounted to approximately HK\$72.4 million as at 30 June 2004, of which HK\$61.6 million is repayable within one year.

The Group's financial position remains healthy. At the balance sheet date, the aggregate balance of cash, cash equivalents and pledged deposits of the Group amounted to approximately HK\$26.5 million.

The Group's borrowings are mainly on a floating rate basis and are mainly denominated in either Hong Kong dollars or United States dollars. These match with the principal currencies in which the Group conducts its business. Therefore, the Group does not have any significant foreign exchange risk.

The gearing ratio on the basis of total debts to total assets as at 30 June 2004 is 58.0% (31 December 2003: 57.3%).

## **Charge on the Group Assets**

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings with aggregate net book value of HK\$22.18 million and bank deposit mounting to approximately HK\$8.2 million.

## **Contingent Liabilities**

Except for corporate guarantee given to banks and other financial institutions in relation to facilities granted to the subsidiaries, the Company has no other contingent liabilities as at the balance sheet date.

## **Capital Structure**

As at 30 June 2004, the Company had approximately 252.5 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$114.8 million.

Subsequent to the balance sheet date on 10 July 2004, the share options that were granted under the Group's share option scheme to certain senior executives and employees of the Group were exercised. The exercise of these share options resulted in the issue of 13.0 million additional shares and proceeds of approximately HK\$2.1 million.

### **Fixed Rate Loan Notes and Convertible Loan Notes**

During the period on 17 March 2004, the Company exercised its option to redeem all of the fixed rate loan notes of US\$1,282,500 at 108% of the loan notes face value. On 30 June 2004, the Company at the request of the convertible loan notes holders redeemed part of the issued convertible loan notes of which principal amount aggregating US\$641,250. The loan notes were redeemed with the Company's cash resources.

As at 30 June 2004, the principal amount of the outstanding unlisted convertible loan notes aggregated US\$641,250. These convertible loan notes bear interest at 2% per annum and are convertible into shares of the Company at an initial conversion price of HK\$0.4 per share, subject to adjustment, during the period commencing from 17 March 2004, up to and including the day immediately prior to the maturity date of the convertible loan notes. The maturity date of the convertible loan notes is 17 June 2005. Each of the holders of the convertible loan notes can on demand requests the Company to redeem the whole or part of the convertible loan notes after 16 March 2004 with an interest at 15% of the principal amount compounded annually from the date of issue until the relevant due date for redemption. At the maturity date, the Company shall redeem all the then outstanding convertible loan notes at 132.25% of their face value.

### **Employees**

As at 30 June 2004, the Group available to it a total workforce of approximately 3,300 of which approximately 70 were based in Hong Kong, approximately 20 were based in Singapore and approximately 3,210 were based in the PRC.

The Group remunerates its employees largely based on the prevailing industry practice and labor laws. Since December 1996, the Company has adopted a share option scheme for the purpose of providing incentives and rewards to the employees of the Group.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group has operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees. For overseas and PRC employees, the Group is required to contribute a certain percentage of its payroll costs to the central pension scheme operated by the respective local government.

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

At 30 June 2004, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Limited Companies, were as follows:

### Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation		
Lai Pei Wor	2,500,000	97,242,000*	99,742,000	39.50
Chan Yau Wah	5,200,000	—	5,200,000	2.06
Chung Yik Cheung, Raymond	152,000	—	152,000	0.06
	<u>7,852,000</u>	<u>97,242,000</u>	<u>105,094,000</u>	<u>41.62</u>

\* Details of Lai Pei Wor's other interests are set out in the section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below.

The interests of the directors in the share option of the Company are separately disclosed in the section headed "Share Option Scheme" below.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

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

### Long positions:

Name	Number of shares held, capacity and nature of interest				Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Beneficiary of a trust	Total	
Celaya Limited ( <i>Note a</i> )	–	–	97,242,000	97,242,000	38.51
Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited") ( <i>Note b</i> )	–	–	97,242,000	97,242,000	38.51
Lai Yiu Chun ( <i>Note c</i> )	1,866,000	21,450,000	–	23,316,000	9.23
Lam Lin Chu, Winnie ( <i>Note c</i> )	23,116,000	200,000	–	23,316,000	9.23

### Notes:

- Celaya Limited holds 97,242,000 shares in its capacity as trustee of The Lai Family Unit Trust, of which all units are held by Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited") in its capacity as trustee of The Lai Family Trust, a discretionary trust of which Lai Pak Hung (son of Lai Pei Wor) and Lai Yee Man (daughter of Lai Pei Wor and under the age of 18) and Chan Yuk Lin (wife of Lai Pei Wor) are discretionary objects.
- The shares referred to herein relate to the same parcel of shares referred to in note (a) above.
- Lam Lin Chu, Winnie is the wife of Lai Yiu Chun, who is a brother of Lai Pei Wor. Both Lam Lin Chu, Winnie and Lai Yiu Chun are declaring interests in the same parcel of shares.

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

## SHARE OPTION SCHEME

On 4 December 1996, the Company adopted a share option scheme (the “Old Scheme”), which was the first share option scheme of the Company, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The Old Scheme was terminated and replaced by a new share option scheme at the annual general meeting of the Company held on 27 May 2002 (the “New Scheme”). Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and any options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The particulars in relation to each share option scheme of the Company that are required under the rules of Chapter 17 of the Listing Rules and SSAP 34 are disclosed as follows:

### (a) Old Scheme

Name or category of participant	Number of share options				At 30 June 2004	Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$	Price of Company's shares at grant date of options *** HK\$
	At 1 January 2004	Exercised during the period	Lapsed during the period	Cancelled during the period					
<b>Directors</b>									
Chan Yau Wah	2,500,000	-	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20
Chung Yik Cheung, Raymond	2,500,000	-	-	-	2,500,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20
	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000,000</u>				
<b>Other employees</b>									
In aggregate	8,000,000	-	-	-	8,000,000	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20
	<u>13,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,000,000</u>				

- \* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*
- \*\* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*
- \*\*\* *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.*

Subsequent to the balance sheet date on 10 July 2004, all of the 13,000,000 outstanding share options were exercised. The weighted average closing price immediately prior to the date on which the share options were exercised is HK\$0.228 per share.

## **(b) New Scheme**

During the period, no options to subscribe for ordinary shares were granted to any eligible participants, including the directors or their respective employees of the Company or any of its subsidiaries under the New Scheme.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

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

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules of the Stock Exchange throughout the accounting period for the six months ended 30 June 2004, except that the independent non-executive directors of the Company are not appointed for specific terms. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

## **BOARD OF DIRECTORS**

As at the date of this report, the board of directors comprises Mr. Lai Pei Wor, Mr. Chan Yau Wah and Mr. Chung Yik Cheung, Raymond as executive directors, and Mr. Tsao Kwang Yung, Peter and Mr. Kung Fan Cheong as independent non-executive directors.

## AUDIT COMMITTEE

The members of the audit committee of the Company comprise of Mr. Tsao Kwang Yung, Peter and Mr. Kung Fan Cheong, both being independent non-executive Directors of the Company.

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

**Lai Pei Wor**  
*Chairman*

Hong Kong, 27 September 2004