

CHING

CHING HING (HOLDINGS) LIMITED
INTERIM REPORT 2004



正興集團
CHING HING GROUP

**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF CHING HING (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)**

We have been instructed by the Company to review the interim financial report set out on pages 2 to 14.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report are the responsibility of, and have been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modification that should be made to the interim financial report for the six months ended 30 June 2004.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Shiu Hong Ng

Practising Certificate number P03752

Hong Kong, 23 September 2004

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30 June 2004. The consolidated results and consolidated cash flow statement for the Group for the six months ended 30 June 2004, and the consolidated balance sheet of the Group at 30 June 2004, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 6 to 14 of this report.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	Note	Unaudited	
		Six months ended 30 June	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	109,805	127,996
Cost of sales		(92,058)	(103,612)
Gross profit		17,747	24,384
Other revenues		105	181
Distribution costs		(6,346)	(6,680)
Administrative expenses		(11,096)	(13,494)
Other operating expenses		(637)	(915)
Operating (loss)/profit	3	(227)	3,476
Finance costs		(2,190)	(2,406)
(Loss)/profit before taxation		(2,417)	1,070
Taxation	4	—	(28)
(Loss)/profit after taxation		(2,417)	1,042
Minority interests		(793)	364
(Loss)/profit attributable to shareholders		(3,210)	1,406
(Loss)/earnings per share — basic	5	(1.00) cents	0.44 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

	Note	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Fixed assets	6	83,770	90,017
Other investment		590	590
		84,360	90,607
Current assets			
Inventories		23,864	23,242
Trade receivables	7	40,149	57,303
Prepayments, deposits and other receivables		4,447	4,350
Deposits with banks		26,362	27,843
Bank balances and cash		11,528	14,002
		106,350	126,740
Current liabilities			
Trade payables	8	29,562	39,885
Other payables and accrued charges		3,117	4,419
Amount due to a related company		—	2,312
Amounts due to directors		4,000	188
Trust receipt loans, secured		8,532	7,268
Current portion of long-term liabilities	9	198	1,258
Short-term bank loans, secured		13,494	20,422
Obligation under a finance lease	10	218	218
Taxation payable		4,161	4,161
Bank overdrafts, secured		11,234	13,662
		74,516	93,793
Net current assets		31,834	32,947
		116,194	123,554
Financed by:			
Share capital	11	16,017	16,017
Reserves		84,510	87,720
Shareholders' funds		100,527	103,737
Long-term liabilities	9	14,407	19,241
Obligation under a finance lease	10	309	418
Minority interests		951	158
		116,194	123,554

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2004 — unaudited*

	Share capital <i>HK\$'000</i> <i>(Note 11)</i>	Share premium <i>HK\$'000</i>	Properties revaluation reserves <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	(Accumulated losses)/ retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2003	16,017	51,574	17,501	7,611	51,834	(40,800)	103,737
Revaluation reserves realised	—	—	(116)	—	—	116	—
Loss attributable to shareholders	—	—	—	—	—	(3,210)	(3,210)
At 30 June 2004	16,017	51,574	17,385	7,611	51,834	(43,894)	100,527
At 31 December 2002	16,017	51,574	17,733	7,611	51,834	2,287	147,056
Profit attributable to shareholders	—	—	—	—	—	1,406	1,406
At 30 June 2003	16,017	51,574	17,733	7,611	51,834	3,693	148,462

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004 — unaudited

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Net cash generated from operating activities	12,442	15,379
Net cash generated from/(used in) investing activities	1,491	(1,872)
Net cash used in financing activities	(15,243)	(16,635)
Net decrease in cash and cash equivalents	(1,310)	(3,128)
Cash and cash equivalents at 1 January	(6,928)	(14,822)
Cash and cash equivalents at 30 June	(8,238)	(17,950)
Analysis of balances of cash and cash equivalents:		
Bank balances and cash, excluding bank balances pledged for long-term liabilities	11,528	14,912
Bank overdrafts, secured	(11,234)	(18,451)
Trust receipt loans repayable within three months	(8,532)	(14,411)
	(8,238)	(17,950)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 Institute of Certified Public Accountants ("HKICPA"), and requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The condensed interim financial statements should be read in conjunction with the Company's 2003 annual report.

The accounting policies and methods of computation used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003.

2. Turnover and segment information

The Group is principally engaged in the provision of fabric processing, sale of fabrics and garment manufacturing and trading.

Primary report format — business segments

The Group is organised into three main business segments:

- | | |
|------------------------------------|---|
| — Fabric processing | — provision of fabric processing services |
| — Sale of fabrics | — manufacture, wholesale and distribution of fabrics |
| — Sale of garments and accessories | — manufacture, wholesale and distribution of garments and accessories |

Secondary report format — geographical segments

The Group's three business segments are operated in four main geographical areas:

- | | |
|---|---|
| — Hong Kong | — fabric processing and sale of fabrics |
| — United States | — sale of garments and accessories |
| — The People's Republic of China (the "PRC") | — fabric processing, sale of fabrics and garments |
| — Other countries (principally Bangladesh, Macau and India) | — sale of garments and accessories |

2. Turnover and segment information (Continued)

Primary report format — business segments

	Turnover		Operating	
	Unaudited		(loss)/profit	
	Six months ended		Unaudited	
	30 June		Six months ended	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:				
Fabric processing	33,555	34,473	(6,930)	4,562
Sale of fabrics	53,898	41,495	9,195	2,444
Sale of garments and accessories	22,352	52,028	(163)	(1,085)
Unallocated revenue and costs	—	—	(2,329)	(2,445)
	109,805	127,996	(227)	3,476

Secondary report format — geographical segments

	Turnover		Operating	
	Unaudited		(loss)/profit	
	Six months ended		Unaudited	
	30 June		Six months ended	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical segments:				
Hong Kong	67,296	57,511	1,730	4,979
United States	21,558	41,528	(95)	193
The PRC	9,649	16,264	(634)	837
Other countries	11,302	12,693	1,101	(88)
Unallocated revenue and costs	—	—	(2,329)	(2,445)
	109,805	127,996	(227)	3,476

3. Operating (loss)/profit

Unaudited
Six months ended 30 June
2004 2003
HK\$'000 *HK\$'000*

Operating (loss)/profit is stated after crediting
and charging the following:

Crediting		
Interest income	45	181
<hr/>		
Charging		
Depreciation	6,054	7,299
Amortisation of goodwill	—	710
Operating lease rentals in respect of land and buildings	743	1,348
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4. Taxation

No provision has been made for Hong Kong or overseas profits tax as the Group sustained a loss during the period. For the six months ended 30 June 2003, Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profit arising in Hong Kong, and taxation on overseas profits had been calculated on the estimated assessable profit for the period at rates of taxation prevailing in the countries in which the Group operated.

The amount of taxation charged to the consolidated profit and loss account represents:

	Unaudited	
	Six months ended 30 June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	—	(2)
PRC taxation	—	(26)
	<hr/>	<hr/>
	—	(28)
	<hr/>	

5. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$3,210,000 (2003: profit of HK\$1,406,000) and on the weighted average number of 320,349,468 (2003: 320,349,468) ordinary shares in issue during the period.

Diluted earnings per share is not presented as the conversion of share options to ordinary shares would have an anti-dilutive effect to the basic loss per share.

6. Fixed assets

	<i>HK\$'000</i>
Six months ended 30 June 2004	
Opening net book amount	90,017
Additions	35
Written off	(228)
Depreciation	(6,054)
Closing net book amount	83,770

7. Trade receivables

Details of the aging analysis of trade receivables were as follows:

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Current	21,604	38,756
31 — 60 days	9,310	11,417
61 — 90 days	4,022	3,928
91 — 120 days	3,498	1,394
Over 120 days	4,761	13,259
Less: provision on doubtful debts	43,195 (3,046)	68,754 (11,451)
	40,149	57,303

7. Trade receivables *(Continued)*

Sale of fabrics and processing of fabrics are with credit terms of 45 days whereas sales from trading of garments and accessories are with credit terms of 120 days. The Group has a defined credit policy and it varies with the financial strengths of individual customers. Sales from trading of garments and accessories are mostly covered by letter of credits.

8. Trade payables

Details of the aging analysis of trade payables were as follows:

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Current	10,546	19,536
31 — 60 days	8,053	12,914
61 — 90 days	8,002	2,320
Over 90 days	2,961	5,115
	29,562	39,885

9. Long-term liabilities

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Bank loans wholly repayable within five years, secured	14,605	20,499
Current portion repayable within one year	(198)	(1,258)
	14,407	19,241

9. Long-term liabilities *(Continued)*

At 30 June 2004, the Group's bank loans, bank overdrafts including trust receipt loans were repayable as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Within one year	33,458	42,610
In the second to fifth years inclusive	14,407	19,241
	47,865	61,851

10. Obligation under a finance lease

	Minimum lease payments		Present value of minimum lease payments	
	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Amounts payable under a finance lease:				
Within one year	251	251	218	218
In the second to fifth years inclusive	355	481	309	418
	606	732	527	636
Less:				
Future finance charges	79	96		
Present value of lease obligation	527	636		

10. Obligation under a finance lease *(Continued)*

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 2.5 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

11. Share capital

	Authorised Ordinary shares of HK\$0.05 each	
	No. of shares	HK\$'000
At 30 June 2004 and 31 December 2003	1,000,000,000	50,000
	Issued and fully paid Ordinary shares of HK\$0.05 each	
	No. of shares	HK\$'000
At 30 June 2004 and 31 December 2003	320,349,468	16,017

12. Share options (outstanding)

On 27 May 2002, the Company adopted a new share option scheme to replace the old one adopted on 29 December 1999. There are no significant changes on the aggregate of 23,800,000 share options granted by the Company on 13 June 2001 to certain employees including executive directors of the Company. The holders of the share options are entitled to subscribe for shares of HK\$0.05 each at an exercise price of HK\$0.36 per share. The options are exercisable at any time during the period from 13 June 2001 to 12 December 2004.

At 30 June 2004, a total of 19,900,000 share options were outstanding. No share options had lapsed or granted during the six months ended 30 June 2004.

13. Banking facilities

At 30 June 2004, the Group's banking facilities amounting to HK\$114,142,000 (2003: HK\$109,127,000) granted by banks and a credit company are secured by the following:

- (a) legal charges over the Group's properties with a net book value of HK\$39,885,000 (2003: HK\$40,916,000);
- (b) guarantees given by the Company and the minority shareholders of subsidiaries for HK\$134,000,000 (2003: HK\$129,000,000) and HK\$70,080,000 (2003: HK\$68,330,000) respectively;
- (c) charges over bank deposits of the Group amounting to HK\$23,272,000 (2003: HK\$23,238,000); and
- (d) personal guarantees of HK\$10,511,000 and HK\$1,280,000 (2003: HK\$6,280,000 and HK\$1,280,000) given by the directors, Mr. Yiu Ching On and Mr. Yiu Kwok Yung respectively.

14. Commitments

(a) Capital commitment

At 30 June 2004, the Group had the following capital commitments:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Capital contribution to a subsidiary	5,000	—
Purchase of plant and machinery	75	1,075
Construction in progress	424	43
	5,499	1,118

14. Commitments *(Continued)***(b) Operating lease commitment**

At 30 June 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Within one year	1,085	1,132
In the second to fifth years inclusive	1,225	1,752
	2,310	2,884

15. Related party transactions

Significant related party transaction, which was carried out in the normal course of the Group's business is as follows:

	Unaudited Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Rental paid to a related company <i>(Note a)</i>	420	420
Interest paid to a related company <i>(Note b)</i>	—	192
Interest paid to directors	18	—

Notes:

- (a) The related company is beneficially owned by Mr. Yiu Ching On, an executive director of the Company.
- (b) The related company is beneficially owned by Ms. Wong Kai Chun, Mr. Yiu Ching On, Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung, executive directors of the Company.

RESULTS

The Group had recognized an unaudited net loss attributable to shareholders of HK\$3.2 million for the six months ended 30 June 2004 as compared with a net profit of HK\$1.4 million in the same period last year. Turnover had decreased by 14.2% over the same period last year to HK\$109.8 million as a result of the substantial drop in turnover derived from manufacturing and sale of garments by the Group. Gross profit margin had decreased to about 16.2% as compared with 19.1% of last period. The Group had recorded a basic loss per share of 1.00 cents as compared with a basic earnings per share of 0.44 cents in the same period last year.

INTERIM DIVIDEND

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

BUSINESS REVIEW AND PROSPECTS

Fabric Processing and Sale of Raw Fabric Section

Turnover generated by fabric processing during the period was about HK\$33.6 million which had reduced by 2.7% when compared to last year's turnover for the same period. Competition in textile industry was still very keen and intense, especially after China was given accession to WTO. Nowadays, some apparels buyers in the United States have established their own buying teams and offices to purchase textile products directly from manufacturers in China. Most of them were state-owned enterprises and therefore can accept a dramatically low selling prices without heavy pressure on their financial capacity. We noted that our customers in this section, most of which being local fabric traders, were also under heavy impact by competition from these China counterparts during these few years. In this respect, they demanded a very stringent and harsh quality standard from us to differentiate their products from those manufactured by the state-owned factories in order to protect their profit margins. We noted that the frequency and amounts of claims of defectiveness and low quality against us had increased substantially during

BUSINESS REVIEW AND PROSPECTS (CONTINUED)**Fabric Processing and Sale of Raw Fabric Section (Continued)**

these few years. Accordingly, we had switched our selling strategy to target at purchase orders from the direct buyers and buying offices instead of local fabric traders. In addition, these direct buying offices were willing to issue letters of credit to us with which we became more secure to receive money from them. In future, we will be more focused on exploring purchase orders from more direct buyers and gradually not rely on local fabric traders as our core customers base.

We also noted that international commodity prices had increased enormously during these two years. Since we used coal to produce steam and electricity for the dyeing processes, the huge rise in coal price in recent years had drastic impact upon our profit margin. Though we had substantially reduced our distribution and administrative expenses by about 13.5%, the savings still could not compensate the large rise in coal price and decrease of turnover. We expect coal price will remain high in foreseeable future and therefore the business environment of this section will continue to be quite harsh. In addition to switching our focus on direct buying offices in future, we will concentrate on sale of raw fabrics together with provision of dyeing services to these buying offices. The profit margins will become higher through these activities so that we can combat the huge rise in coal prices.

Moreover, international price of cotton had decreased a lot since the early of 2004 due to overshooting of its price in 2003. This gave us a golden chance to expand this line of business from 2004 onwards.

Furthermore, textiles quota system will be abolished by the government of United States commencing from 1 January 2005. Since the ultimate exporting mechanism is still unknown, some of our buyers have held up their purchase orders in short-term until the picture becomes clearer. Accordingly, the turnover generated by this section dropped by about 2.7% when compared with the same period in last year.

BUSINESS REVIEW AND PROSPECTS (CONTINUED)

Dyed Fabric Trading Section

The turnover and results of this section had gradually improved and were satisfactory in 2004. All subsidiaries in this section had successfully turned around and made profit in the relevant period. Ching Fong Textiles Limited had resumed its operation since 1 August 2004 after about a year of restructuring. In addition, Alpha Textile International Limited, a newly incorporated subsidiary in this section, had commenced operation since 1 September 2004. On the other hand, Rich Tide (Ching Hing) International Limited will gradually become dormant because of the expiration of the cooperation agreement between its operating shareholder and us on 1 August 2004. In future, we will continue to form strategic alliance with sale persons with high marketing caliber in order to provide a "One-stop Services" to our customers in future.

Garment Manufacturing and Trading Section

As we had mentioned in 2003 annual report, we had downsized the garment manufacturing operation of the Group due to its continual loss-making. Effort was then made to establish nine retailing stores to sell garments with self-registered brands. However, due to stiff competition in retailing business in the PRC, the stores could not turn around to profit in first half of 2004. In this respect, we had recently completely close down all retailing stores to limit our losses. Since labour-intensive industry, like garment manufacturing, will continue to be over-supply in the PRC, we will not spare any more resources in this section for the time being.

Turnover in this section had continue to decrease by about 57% when compared with the same period in last year. Due to globally stiff competition in garment trading business, we had already adopted a very stringent approach in order selection processes. In addition, we focused on purchase orders with relatively high margins to compensate the risk premium borne. Most of the purchase orders have to be settled by letters of credit to protect us from bad debts. Accordingly, the turnover had decreased substantially in these few years. However, to maintain a steady growth of the Group, this strategy will continue to be adopted by us in foreseeable future.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2004, the Group had total asset of HK\$190.71 million which were financed by current liabilities of HK\$74.52 million, long-term liabilities of HK\$14.72 million and shareholders' equity of HK\$100.53 million. Accordingly, the Group's ratio of debt to total assets and debt to equity were 46.8% and 88.8%, respectively. In the environment of global stagflation, the Group will focus on reducing the gearing ratio to an even safer level.

The Group financed its operation mainly by internal resources and bank financing. During the period, no new equity shares had been issued for fund raising.

At 30 June 2004, the Group had cash on hand and in bank for an aggregate amount of about HK\$37.89 million, which we consider was sufficient for normal daily operation and expansion.

EMPLOYEE

At 30 June 2004, the Group employed about 500 employees including factory workers employed in the PRC and sales and merchandising staff situated in Bangladesh. Employees are remunerated based on market and industry practice.

The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2004, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules ("Model Code"):

(i) Shares — long position

The Company:

Name of directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yiu Ching On	4,252,000	—	30,000,000 <i>(Note f)</i>	117,618,055 <i>(Note e)</i>	151,870,055
Mr. Yiu Kwok Ming, Tommy	1,100,000	2,610,637 <i>(Note a)</i>	17,857,142 <i>(Note c)</i>	117,618,055 <i>(Note b)</i>	139,185,834
Mr. Yiu Kwok Yung	—	—	32,500,000 <i>(Note d)</i>	117,618,055 <i>(Note b)</i>	150,118,055
Mr. Lo Wai Kon	218,000	—	—	—	218,000

Notes:

- (a) Such shares are beneficially owned by his spouse.

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)**(i) Shares — long position (Continued)**

- (b) Happy Joy Limited, a company wholly-owned by Mr. Yiu Ching On, and Determine Win Investments Limited in its capacity as trustee of The Yiu's Family Unit Trust own approximately 5.02% and 94.98% of the issued share capital of Jarak Assets Limited, respectively which in turn holds 117,618,055 shares. HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Unit Trust, the beneficiaries of which include Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung.
- (c) Such shares are beneficially owned by Cotton Row Limited, a company wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.
- (d) Such shares are beneficially owned by Modern Fashion Inc., a company wholly-owned by Mr. Yiu Kwok Yung, a director of the Company.
- (e) Mr. Yiu Ching On was founder of the Yiu's Family Unit Trust, a discretionary trust.
- (f) Such shares are beneficially owned by Happy Joy Limited, a company wholly-owned by Mr. Yiu Ching On, a director of the Company.

Associated corporation:

Name of associated corporation	Name of director	Personal interests	Family interests	Corporate interests
Ching Hing Weaving Dyeing & Printing Factory Limited	Mr. Yiu Ching On	14,196,591	376,427 (Note b)	28,023,134 (Note c)
	Mr. Yiu Kwok Ming, Tommy	—	1,000,000 (Note b)	—

Notes:

- (a) The above represent interests in non-voting deferred shares.
- (b) Such non-voting deferred shares are beneficially owned by the spouse of the respective directors.
- (c) Filand Limited and Clear Picture Holdings Limited, companies wholly-owned by Mr. Yiu Ching On, a director of the Company, beneficially owned 10,633,875 and 17,389,259 non-voting deferred shares respectively.

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)**(ii) Share Options**

Details of the directors' interests in share options to subscribe for shares in the Company pursuant to the Company's employee share option scheme adopted on 27 May 2002 pursuant to a new share option scheme are as follows:

Name of directors	Date of grant	Number of options outstanding at 30 June 2004
Mr. Yiu Ching On	13 June 2001	3,000,000
Mr. Yiu Kwok Ming, Tommy	13 June 2001	3,000,000
Mr. Yiu Kwok Yung	13 June 2001	3,000,000
Ms. Wong Kai Chun	13 June 2001	3,000,000

The exercise price per share of the above options is HK\$0.360. The above options are exercisable from the date of grant to 12 December 2004. At 30 June 2004, a total of 19,900,000 share options were outstanding.

No options had been granted during the six months ended 30 June 2004.

Save as disclosed above, at no time during the period had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the period was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, the following companies have long positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held	Percentage of issued share capital as at 30 June 2004
Jarak Assets Limited (<i>Note a</i>)	117,618,055	36.7%
Determine Win Investments Limited (<i>Note a</i>)	117,618,055	36.7%
HSBC International Trustee Limited (<i>Note b</i>)	117,618,055	36.7%
HSBC Investment Bank Holdings B.V. (<i>Note b</i>)	117,618,055	36.7%
HSBC Holdings B.V. (<i>Note b</i>)	117,618,055	36.7%
HSBC Finance (Netherlands) (<i>Note b</i>)	117,618,055	36.7%
HSBC Holdings plc (<i>Note b</i>)	117,618,055	36.7%
Modern Fashion Inc. (<i>Note c</i>)	32,500,000	10.1%
Happy Joy Limited (<i>Note e</i>)	30,000,000	9.4%
Cotton Row Limited (<i>Note f</i>)	17,857,142	5.6%

Notes:

(a) Jarak Assets Limited is owned as to approximately 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust.

(b) HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Unit Trust.

HSBC International Trustee Limited is a wholly-owned subsidiary within the HSBC Group. Their interests in the shares of the Company duplicate with each other.

(c) Modern Fashion Inc. is wholly-owned by Mr. Yiu Kwok Yung, a director of the Company.

(d) All the interests disclosed under this section represent long position in the shares of the Company.

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

- (e) Happy Joy Limited is wholly-owned by Mr. Yiu Ching On, a director of the Company.
- (f) Cotton Row Limited is wholly-owned by Mr. Yiu Kwok Ming, Tommy a director of the Company.

Save as disclosed therein, no other person has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

The Company has not redeemed any of its listed securities during the six months ended 30 June 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the same period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the accounting period, except that the independent non-executive directors are not appointed for a specific term since they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and risk evaluation. The Committee comprises three independent non-executive directors, namely Messrs. Cheung Wing Yui, Wong Shiu Hoi, Peter and Lo Wai Kon.

On behalf of the Board
Yiu Ching On
Chairman

Hong Kong, 23 September 2004