



WO KEE HONG (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)



Interim Report 2004

Unaudited interim results for the six months ended June 30, 2004

WO KEE HONG (HOLDINGS) LIMITED is a holding company with major subsidiaries engaged in the import, marketing, distribution and after-sales service of high quality, brand-name products serving customers in the Asian region and in particular, the markets of Mainland China, Hong Kong, Macau, Singapore and Malaysia. The products include principally air-conditioning; domestic appliances; audio-visual electrical items including car audio; motor vehicles and accessories; and other electronic products.

UNAUDITED INTERIM RESULTS

The Directors of Wo Kee Hong (Holdings) Limited (the "Company") announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2004, along with the comparative figures for the corresponding period and selected explanatory notes, are as follows:-

Condensed Consolidated Profit and Loss Account

	Notes	Six months ended June 30	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	278,562	267,361
Cost of sales		(214,684)	(209,153)
Gross profit		63,878	58,208
Other operating income		3,756	7,341
Investment income		43	534
Distribution costs		(23,727)	(27,032)
Administrative expenses		(43,471)	(44,930)
Loss on disposal of investment properties		-	(8,526)
Surplus on revaluation of properties held for sale		-	5,000
Profit (Loss) from operations	3	479	(9,405)
Finance costs		(4,390)	(5,272)
Restructuring costs		(1,320)	-
Share of result of an associate		(10,793)	159
Loss before taxation		(16,024)	(14,518)
Income tax	4	12,780	(835)
Loss after taxation		(3,244)	(15,353)
Minority interests		951	579
Loss attributable to shareholders		(2,293)	(14,774)
Loss per share – Basic	5	(0.10 cents)	(1.47 cents)

Condensed Consolidated Balance Sheet

	Notes	June 30 2004 (Unaudited) HK\$'000	December 31 2003 (Audited) HK\$'000
Non-current assets			
Investment properties	6	159,848	116,697
Property, plant and equipment	7	133,692	180,019
Goodwill		2,577	–
Deferred tax assets	12	6,300	–
Interest in an associate		81,846	92,036
Investment securities		702	702
		384,965	389,454
Current assets			
Inventories		104,968	107,133
Properties held for sale, at net realisable value		41,256	64,525
Trade and other receivables	8	71,467	66,163
Amount due from an associate		319	742
Amounts due from related parties		3	2,085
Taxation recoverable		130	27
Other investments		102	100
Bank balances and cash		21,099	16,093
		239,344	256,868
Current liabilities			
Trade and other payables	9	82,770	82,775
Bills payable		41,008	33,908
Amounts due to Directors		597	2,225
Amounts due to related companies		9,937	10,154
Obligations under finance leases – due within one year		81	–
Borrowings – due within one year	10	60,050	76,754
		194,443	205,816
Net current assets		44,901	51,052
		429,866	440,506
Capital and reserves			
Share capital	11	221,615	221,615
Reserves		37,849	40,301
		259,464	261,916
Minority interests		1,479	–
Non-current liabilities			
Obligations under finance leases – due after one year		433	–
Borrowings – due after one year	10	141,037	143,359
Loans advanced from minority shareholders		128	1,522
Deferred tax liabilities	12	27,325	33,709
		168,923	178,590
		429,866	440,506

Condensed Consolidated Cash Flow Statement

	Six months ended June 30	
	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
Net cash generated from (used in) operating activities	29,182	(31,488)
Net cash (used in) generated from investing activities	(974)	6,098
Net cash (used in) generated from financing activities	(15,372)	15,486
Net increase (decrease) in cash and cash equivalents	12,836	(9,904)
Cash and cash equivalents at January 1	1,796	1,609
Effect of foreign currency exchange rate changes	(112)	(26)
Cash and cash equivalents at June 30	14,520	(8,321)
Analysis of the balances of cash and cash equivalents		
Being :		
Bank balances and cash	21,099	12,614
Bank overdrafts	(6,579)	(20,935)
	14,520	(8,321)

Condensed Consolidated Statement of Changes in Equity

(Unaudited)	Share capital <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At January 1, 2004	221,615	916	(1,733)	151,236	(110,118)	261,916
Exchange difference arising on translation of financial statements of overseas operations not recognised in profit and loss account	-	-	(159)	-	-	(159)
Loss attributable to shareholders	-	-	-	-	(2,293)	(2,293)
At June 30, 2004	221,615	916	(1,892)	151,236	(112,411)	259,464
At January 1, 2003	77,488	916	(314)	261,269	(2,725)	336,634
Bonus issue of shares	7,749	-	-	(7,749)	-	-
Exchange difference arising on translation of financial statements of overseas operations not recognised in profit and loss account	-	-	(663)	-	-	(663)
Loss attributable to shareholders	-	-	-	-	(14,774)	(14,774)
At June 30, 2003	85,237	916	(977)	253,520	(17,499)	321,197

Notes to the Condensed Consolidated Financial Statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25, “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended December 31, 2003.

2. Business and geographical segments

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and maintenance service income during the period. An analysis of the Group’s unaudited segment revenues and results for business segments and geographical segments for the period is as follows:

Business segments

Six months ended June 30, 2004							
	Air-conditioning products HK\$'000	Audio-visual and other electrical products HK\$'000	Cars and car accessories HK\$'000	Direct marketing HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover							
External sales	64,824	62,355	121,113	30,270	-	-	278,562
Inter-segment sales	1,344	3,271	-	105	-	(4,720)	-
Total turnover	66,168	65,626	121,113	30,375	-	(4,720)	278,562
Inter-segment sales are charged at prevailing market rates.							
Results							
Segment results	346	(1,226)	6,389	(4,384)	(681)	403	847
Unallocated corporate expenses							(368)
Profit from operations							479
Finance costs							(4,390)
Restructuring costs							(1,320)
Share of result of an associate	-	(10,793)	-	-	-	-	(10,793)
Loss before taxation							(16,024)
Income tax							12,780
Loss after taxation							(3,244)
Minority interests							951
Loss attributable to shareholders							(2,293)

2. Business and geographical segments (Continued)

Business segments (Continued)

Six months ended June 30, 2003

	Air-conditioning products HK\$'000	Audio-visual and other electrical products HK\$'000	Cars and car accessories HK\$'000	Direct marketing HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover							
External sales	66,929	55,140	111,435	33,857	-	-	267,361
Inter-segment sales	981	6,778	-	151	-	(7,910)	-
Total turnover	67,910	61,918	111,435	34,008	-	(7,910)	267,361

Inter-segment sales are charged at prevailing market rates.

Results

Segment results	(81)	601	(5,103)	(3,572)	(1,037)	-	(9,192)
Unallocated corporate expenses							(213)
Loss from operations							(9,405)
Finance costs							(5,272)
Share of result of an associate	-	159	-	-	-	-	159
Loss before taxation							(14,518)
Income tax							(835)
Loss after taxation							(15,353)
Minority interests							579
Loss attributable to shareholders							(14,774)

2. Business and geographical segments (Continued)

Geographical segments

	Turnover by geographical market		Contribution to operating results	
	Six months ended June 30		Six months ended June 30	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	192,511	189,313	(1,917)	(7,167)
Singapore	26,431	25,366	(143)	52
Malaysia	11,610	13,555	519	680
The People's Republic of China	31,504	25,167	2,393	(3,252)
Macau	15,608	10,282	(17)	206
Others	898	3,678	12	289
	278,562	267,361	847	(9,192)
Unallocated corporate expenses			(368)	(213)
Profit (Loss) from operations			479	(9,405)

3. Profit (Loss) from operations

	Six months ended June 30	
	2004 HK\$'000	2003 HK\$'000
Profit (Loss) from operations has been arrived at after charging:		
Depreciation of:		
Owned assets	3,629	3,941
Assets held under finance leases	12	–
Amortisation of goodwill	136	–

4. Income tax

	Six months ended June 30	
	2004 HK\$'000	2003 HK\$'000
The tax credit (charge) comprises:		
Tax for the period:		
Hong Kong Profits Tax	–	–
Overseas income tax	96	(16)
	96	(16)
Deferred tax:		
Current period	12,684	–
Change in tax rate	–	(819)
Taxation attributable to the Company and its subsidiaries	12,780	(835)

No provision for Hong Kong Profits Tax has been made for both periods as the Group did not derive any assessable profits.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

5. Loss per share

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$2,293,000 (2003: HK\$14,774,000) and on the weighted average number of 2,216,154,331 (2003: 1,001,531,285) ordinary shares in issue during the period. The weighted average number of ordinary shares for the purpose of basic loss per share for 2003 has been adjusted for the rights issue with bonus issue in September 2003.

No diluted loss per share has been presented because the exercise price of the Company's outstanding share options was higher than the average market price for share for both periods.

6. Investment properties

During the period, the Group had transferred certain of its properties from land and building to investment properties at HK\$43,151,000 (2003: Nil).

7. Property, plant and equipment

	June 30 2004 HK\$'000	December 31 2003 <i>HK\$'000</i>
Opening net book value	180,019	186,360
Exchange difference	3	2
Additions	1,293	2,429
Disposals	(831)	(881)
Transfer to investment properties	(43,151)	–
Depreciation charge	(3,641)	(7,891)
Closing net book value	133,692	180,019

8. Trade and other receivables

The Group allows an average credit period of 30 to 90 days to its customers. The aged analysis of trade receivables is as follows:

	June 30 2004 HK\$'000	December 31 2003 <i>HK\$'000</i>
Within 30 days	20,282	19,922
31 to 60 days	9,078	12,073
61 to 90 days	3,170	2,716
91 days to 1 year	3,414	4,506
Over 1 year	2,116	1,185
Total trade receivables	38,060	40,402
Deposits, prepayments and other receivables	33,407	25,761
	71,467	66,163

9. Trade and other payables

The aged analysis of trade payables is as follows :

	June 30 2004 HK\$'000	December 31 2003 HK\$'000
Within 30 days	5,069	6,042
31 to 60 days	2,876	2,610
61 to 90 days	2,425	1,478
91 days to 1 year	1,741	3,349
Over 1 year	1,700	1,414
Total trade payables	13,811	14,893
Customers' deposits, accruals and other payables	68,959	67,882
	82,770	82,775

10. Borrowings

	June 30 2004 HK\$'000	December 31 2003 HK\$'000
Bank overdrafts	6,579	14,297
Bank loans	63,789	75,708
	70,368	90,005
Secured	62,963	80,868
Unsecured	7,405	9,137
	70,368	90,005
Secured loan advanced from a supplier (note)	130,719	130,108
	201,087	220,113
The maturity of the above loans is as follows:		
Within one year	60,050	76,754
More than one year, but not exceeding two years	1,713	3,574
More than two years, but not exceeding five years	5,698	5,868
More than five years	133,626	133,917
	201,087	220,113
Less: Amounts due within one year shown under current liabilities	(60,050)	(76,754)
Amounts due after one year	141,037	143,359

Note: The loan advanced from a supplier is secured by properties of the Group, bears interest at 2.5% per annum and is repayable semi-annually by ten installments commencing from June 30, 2012.

11. Share capital

	Number of shares	Nominal value <i>HK\$'000</i>
Authorised:		
At January 1, 2003, December 31, 2003, January 1, 2004 and June 30, 2004 of HK\$0.10 each	3,500,000,000	350,000
Issued and fully paid:		
At January 1, 2003 of HK\$0.10 each	774,879,138	77,488
Issue of shares upon bonus share issue	77,487,913	7,749
Issue of shares upon rights issue	340,946,820	34,094
Issue of shares upon bonus share issue	1,022,840,460	102,284
At December 31, 2003, January 1, 2004 and June 30, 2004 of HK\$0.10 each	2,216,154,331	221,615

12. Deferred taxation

The movement in the deferred tax liabilities (assets) account is as follows :

	Tax loss <i>HK\$'000</i>	Properties <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At January 1, 2003	–	7,563	24,003	31,566
Credit to income for the year	–	(217)	(598)	(815)
Effect of change in tax rate charged to profit and loss account	–	709	2,249	2,958
At December 31, 2003 and January 1, 2004	–	8,055	25,654	33,709
Credit to income for the period	(6,300)	(2,112)	(4,272)	(12,684)
At June 30, 2004	(6,300)	5,943	21,382	21,025
Represented by:				
Deferred tax assets				(6,300)
Deferred tax liabilities				27,325
				<u>21,025</u>

During the period, deferred tax assets of HK\$6,300,000 was recognised for car business's tax loss carried forward.

13. Related party transactions

During the period, the Group entered into the following transactions with related parties :

	Six months ended June 30	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest income received from a related party	30	52
Management and agency fee paid to a related company	2,116	1,665
Sales of goods to a Director (net of trade in value HK\$600,000)	900	–
Acquisition of further interest in a subsidiary from a related party	2,287	–
Interests expenses paid to a Director	–	737
Interests expenses paid to a related company	–	135

14. Contingencies and commitments

There is no material change in the contingencies and commitment since the last annual reporting date.

15. Pledge of assets

At the interim balance sheet date, certain of the Group's land and buildings, investment properties and properties held for sale with an aggregate net book value of HK\$300,196,000 (December 31, 2003: HK\$322,240,000); inventories stated at lower of cost and net realisable value amounting HK\$4,088,000 (December 31, 2003: HK\$4,663,000) and all assets of a subsidiary of HK\$17,509,000 (December 31, 2003: HK\$15,095,000) have been pledged to secure facilities granted by banks and a supplier to the Group.

16. Comparative figures

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

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results

For the first six months of 2004 the Group recorded a total turnover of HK\$278.6 million, an increase of HK\$11.2 million (+4.2%) over HK\$267.4 million of last period. This underscored the recovery of our business from last year when markets were disrupted by SARS and the increase in First Registration Taxes introduced in March 2003 which badly hit our motor vehicles trading business. Given the general economic recovery in 2004, market condition of our products also improved.

Gross profits increased by HK\$5.7 million (+9.7%) to HK\$63.9 million when compared with last period's HK\$58.2 million. Despite intensive price competition in the marketplace, we achieved a better than forecasted gross margins at 22.9% as compared to 21.8% in last period.

As a result of the Group's continuous effort to maintain a tight control on costs, distribution costs were reduced by HK\$3.3 million or 12.2%, administrative expenses by HK\$1.5 million or 3.2% and finance costs by HK\$0.9 million or 16.7% as compared to last period.

Since the beginning of the year the Group strove to cut down staff costs to an acceptable level through increasing staff efficiency and streamlining operations. In particular, in May 2004 the Group embarked on a corporate-wide saving plan to alleviate the staff costs and other expenses of all departments on a timely and cost effective basis. Accordingly, headcount would be saved and the relevant severance payments of HK\$1.3 million was accounted for as restructuring costs. It is anticipated that upon full implementation of the saving plan a double-digit saving on expenses would be achieved.

Our associated company in Jiangmen continued to record a loss of HK\$10.8 million. The upsurge in the costs of plastic materials and thin steel plate in this year further dampened the financial performance. We have identified new product and distribution strategy to rebuild this joint venture for a new phase of growth.

The Board is pleased to announce a profit from operations of the Group of HK\$0.5 million in the first six months of 2004, which exhibited a marked improvement of HK\$9.9 million against the operating loss of HK\$9.4 million in last period. After deducting finance costs of HK\$4.4 million, restructuring costs of HK\$1.3 million, share of loss of an associate of HK\$10.8 million and crediting deferred tax of HK\$12.8 million and minority interests of HK\$0.9 million, a small loss attributable to shareholders of HK\$2.3 million was reported, reflecting a great step forward in financial performance over profitability from the last period (loss of HK\$14.8 million). This strongly manifested the trend of turnaround in the Group's profitability and we believe that the toughest time is over.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

Cash flow, liquidity and financial resources

The Group continued to be financed by a combination of its equity capital base, cash flow generated from operations, loan advanced from a supplier and bank borrowings. As usual, bank and other liabilities were being met upon their maturities in the normal course of business.

In the first six months of 2004 cash generated from operations amounted to HK\$29.2 million, enabling the Group to repay the bank and other debts and to fund the investing activities to the extent of HK\$16.4 million. As a result, net positive cashflow of HK\$12.8 million was achieved which greatly strengthened our cash position, resulting in cash and cash equivalents amounting to HK\$14.5 million at June 30, 2004.

The Group had total borrowings at June 30, 2004 amounting to HK\$201.1 million (December 31, 2003: HK\$220.1 million). At the end of the period, the Group's gearing ratio stood at 54.6%, based on long term liabilities (excluding deferred tax liabilities) of HK\$141.6 million and shareholders' equity of HK\$259.5 million. The current ratio was 1.2, based on current assets of HK\$239.3 million and current liabilities of HK\$194.4 million.

At June 30, 2004, debtor collections period stood at 25 days (December 31, 2003: 27 days) and inventory turnover figured at 89 days (December 31, 2003: 90 days). These two performance indicators were, again, reflecting clear evidence of improvement in financial performance.

It is the Group's management practice to hedge those volatile foreign currency transactions by stabilizing the costs resulting in the peg of the exchange rates. At June 30, 2004, the total outstanding foreign exchange contracts purchased with banks amounted to HK\$14.5 million.

At June 30, 2004, the Group had trading facilities amounting to HK\$147.8 million (December 31, 2003: HK\$155.6 million) of which HK\$125.2 million was utilized. The Group had no material contingent liabilities at both June 30, 2004 and December 31, 2003.

BUSINESS REVIEW

Air-conditioning products

The business consists of marketing and distribution of a wide range of consumer and commercial air-conditioning products from four major brands: namely, "MHI" (Mitsubishi Heavy Industries of Japan); "LG" (LG Electronics Inc. of Korea); "GREE-Bodysonic" and "Galanz", both manufactured in China.

BUSINESS REVIEW (CONTINUED)**Air-conditioning products (Continued)**

Turnover for the first six months was slightly down 3.1% over last period at HK\$64.8 million (2003: HK\$66.9 million). The Hong Kong market has experienced a gradual upturn of business since the first quarter of the year, due to the improved economic outlook, lower unemployment and the gradual return of consumer confidence. In the Mainland China market, however, business of commercial air-conditioning products has declined due to severe local competition from domestic production of both Mainland Chinese brands and international branded products made locally. In the Singapore market, sales is still weak due to sluggish housing and construction activities.

Due to the Group's increased marketing and distribution effort, and the switch of supplies to lower-cost centres of production by our major principals, they helped to ensure the product pricing remains competitive in the market place. The Group did well to maintain overall profitability from this business. In addition, a series of cost-saving and rationalization measures was introduced to enhance operating efficiency.

Although global material costs and oil prices are posing continuous pressure on our costs, we expect sales for the second half year will increase over that of last year, in view of the improved market environment, with more new product launches and product line extensions.

Audio-visual and other electrical products

The core business involves distribution of a range of branded products including "LG" electrical appliances from Korea, "Alpine" car audio equipments from Japan, "Marantz" high-end audio-visual products from Japan, the two Group's in-house brands of "Rogers" audio-visual products from the UK and "Bodysonic" audio-visual products from Japan.

With the improvement of the economy in the major markets in Hong Kong, Singapore and Malaysia, sales performance was satisfactory in the first six months this year. Total sales in the six months increased by 13.1% to HK\$62.4 million over last period (2003: HK\$55.1 million). Despite the fierce competition in the market, which would pose threats to the profit margins, sales prospect in the second half of the year is more optimistic. It is expected that gross margins can be maintained by the new product launches of car navigation system, premium appliances models with innovative functions, amplifiers with the latest surround sound system, large-sized plasma TVs and LCD TVs.

Direct marketing

The business involves retailing of consumer electronic and electrical appliances in the Hong Kong market through our own discount outlets named "Mega Warehouse".

For the first six months of 2004, turnover was HK\$30.3 million, a decrease of HK\$3.6 million (-10.6%) over HK\$33.9 million of last period. Although the general economic growth of Hong Kong in the first half-year was encouraging, consumer demand in large electronic and electrical products was still stagnant whilst competition continued to be intense. Thus, efforts were taken to improve the operational efficiency by closing down non-performing outlets. To achieve the objective of profit contribution to the Group, more measures of improving the operational efficiency will be implemented in the second half of this year.

BUSINESS REVIEW (CONTINUED)

Car and car accessories

The business consists mainly of the import, distribution and after-sale service of “Ferrari” and “Maserati” cars and spare parts in Hong Kong, Macau and Mainland China.

The first half of 2004 has been a continuation of a gradual improvement in market sentiment in Hong Kong, as witnessed already since the last quarter in last year.

The market in China continued to grow strongly into the first quarter of 2004; however, due to macro economic policy implemented to cool off the overheating economy in China, sales slowed down in the second quarter.

Turnover increased by 8.7% to HK\$121.1 million and good profit margins were achieved; a dramatic turnaround from last year’s loss in this business.

In June 2004 a major “Ferrari” and “Maserati” promotion was staged at Shanghai, combining a number of important events. These events include announcement of the new equity joint venture (“EJV”) responsible for the sale, marketing and network development in China; grand opening of the new “Ferrari” and “Maserati” showroom; launch of the new “Ferrari” 612 Scaglietti at the Shanghai Exhibition Center; exclusive “Ferrari” and “Maserati” participation at the grand opening ceremony for the new Shanghai Grand Prix Circuit; and exclusive track day for “Ferrari” and “Maserati” owners from Hong Kong and China at the new Grand Prix Circuit.

For 2004, the prevailing positive market trend in Hong Kong, combined with the introduction by our Group of several new models, i.e. “Ferrari” 612 Scaglietti, “Ferrari” 575 GTC and “Maserati” Quattroporte, “Maserati” Grand Sport during the year, should provide excellent grounds for a profitable business year for this business. The new joint venture would be operative in Mainland China in the second half year, steady improvement of the business is expected.

During the period under review, the Group entered into a strategic alliance with Ferrari S.p.A. (“Ferrari”) and Poly Technologies, Inc. (“Poly Technologies”), a subsidiary of Poly Group, to set up an EJV company, Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd, in Mainland China. The EJV is the sole importer of “Ferrari” and “Maserati” cars in China, responsible for the import, marketing, sale to dealers, spare parts and accessories supply, and after-sale technical supports for these unique global brands. The Group, Ferrari and Poly Technologies own 30%, 40% and 30% respectively in the EJV. The three parties have mapped out detailed development plans for the first three years’ operations of the EJV. At the initial stage, the EJV will set up a national dealership network with over 10 strategic locations in major cities in China, including Beijing, Shanghai, Xiamen, Ningbo, Dalian, Hangzhou, Chengdu, Wuhan, Guangzhou and Shenzhen, to provide customers with sale and maintenance services for “Ferrari” and “Maserati” premium sports cars. In September 2004, the EJV has been formally set up, with the business licence issued by the relevant PRC authority.

HUMAN RESOURCES

As of June 30, 2004, the total number of employees of the Group, excluding an associate, further reduced to 343 (2003: 361). It is essential, as part of the profit restoration program, to carefully review the staff resources in each business unit within the Group as we moved into the second half of the year. With the closure and consolidation of some business units and a reduction in remuneration packages in the second half of 2004, the Group has determined to restore profitability and remains competitive. Although the measures are painful, the Group recognises the importance of its employees and has been extremely fortunate to retain a core of loyal, experienced and dedicated people.

PROSPECTS

The Hong Kong economy is recovering at a healthy pace, witnessed by increased consumer spending and an upsurge in tourism. Sales in premium electrical products and sports cars have been increasing remarkably; we expect this trend will continue into the second half. Strong growth is forecasted for our car business with launches of new and exciting models of both "Ferrari" and "Maserati" whilst upmarket and innovative electronic and electrical items are getting very popular with the domestic customers and tourists. Markets in Singapore and Malaysia are also improving steadily for our products. The Group has achieved a positive operational result for the first half and expects to further improve revenues and profits in the remaining of the year. Our joint venture in China of car importation and distribution, Ferrari Maserati Cars International Trading (Shanghai) Co., Ltd., will commence operations in the last quarter of the year and is expected to bring further profit to the Group. Our associated manufacturing joint venture in China, Jin Ling Electrical Co. Ltd., will undergo further streamlining of operations as well as development of new products with higher margins, including plasma TVs and LCD TVs and monitors. All these developments will combine to bring improvement in operating result to the Group. Positive cashflow generation is also planned both at the operational level and with disposals of non-core investments. We should conclude the year with a very healthy set of assets with much improved return on investments.

OTHER INFORMATION

Disclosure of directors' interests

(a) As at June 30, 2004, the interests and short positions of each Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange are as follows:

(i) Beneficial interest and short position in Shares as at June 30, 2004:

Directors	Number of ordinary shares of HK\$0.10 each ("Share")			
	Personal Interests	Family Interests	Corporate Interests	Total Interests
Mr. Richard Man Fai LEE	33,564,388	6,738,732 <i>(Note 1)</i>	1,171,335,706 <i>(Note 2)</i>	1,211,638,826
Mr. Jeff Man Bun LEE	4,719,000	–	1,185,792,896 <i>(Notes 2 & 3)</i>	1,190,511,896
Ms. Kam Har YUE	52,097,162	–	1,171,335,706 <i>(Note 2)</i>	1,223,432,868
Mr. Sammy Chi Chung SUEN	471,900	–	–	471,900

Notes:

1. The 6,738,732 Shares are owned by Ms. Siew Yit HOH, the spouse of Mr. Richard Man Fai LEE.
2. The 1,171,335,706 Shares are held by Modern Orbit Limited, which is wholly owned by Cyber Tower Inc. as trustee of The WS Lee Unit Trust. 99% of the units of The WS Lee Unit Trust are held by a discretionary trust of which Mr. Wing Sum LEE's family members including Ms. Kam Har YUE, Mr. Richard Man Fai LEE and Mr. Jeff Man Bun LEE are the beneficiaries. The remaining 1% of the units of The WS Lee Unit Trust are held by Skylink International Asset Corporation, a company incorporated in the British Virgin Islands and owned by Ms. Kam Har YUE, Mr. Richard Man Fai LEE and Mr. Jeff Man Bun LEE.
3. Out of the 1,185,792,896 Shares, 14,457,190 Shares are held by Fisherman Enterprises Inc., a company incorporated in the British Virgin Islands and wholly owned by Mr. Jeff Man Bun LEE.
4. All interests in the Shares are long positions. None of the Directors held any short position in the Shares.

OTHER INFORMATION (CONTINUED)

Disclosure of directors' interests (Continued)

- (ii) Beneficial interests and short positions in underlying shares of equity derivatives of the Company as at June 30, 2004 are disclosed in the section headed "Movement of Share options" of this report.
- (iii) Beneficial interests and short position in shares in associated corporations as at June 30, 2004:

Directors	Name of associated corporation	Number of shares or equity interests held or interested in	Class and/or description of shares/interests
Mr. Wing Sum LEE	Stoneycroft Estates Limited	15,750,000	non-voting deferred shares
	Wo Kee Hong Limited	8,500	non-voting deferred shares
	Wo Kee Services Limited	1	non-voting deferred shares
Ms. Kam Har YUE	Forward International Corporation, Limited	34,335	non-voting deferred shares
	Shinwa Engineering Company, Limited	3,850,000	non-voting deferred shares
	Stoneycroft Estates Limited	340,000	non-voting deferred shares
	Wo Kee Hong Limited	400	non-voting deferred shares

OTHER INFORMATION (CONTINUED)

Substantial shareholders' interests

Save as disclosed below and in the section headed "Disclosure of directors' interests", as at June 30, 2004, so far as is known to the Directors, no other person had, or was deemed or taken to have an interest or short position of 5% or more of the interests in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 as the SFO:

Company Name	Number of Shares	Approximate % of the total issued Shares
Modern Orbit Limited	1,171,335,706	52.85%

Note: The 1,171,335,706 Shares are held by Modern Orbit Limited, which is wholly owned by Cyber Tower Inc. as trustee of The WS Lee Unit Trust. 99% of the units of The WS Lee Unit Trust are held by a discretionary trust of which Mr. Wing Sum LEE's family members including Ms. Kam Har YUE, Mr. Richard Man Fai LEE and Mr. Jeff Man Bun LEE are the beneficiaries. The remaining 1% of the units of The WS Lee Unit Trust are held by Skylink International Asset Corporation, a company incorporated in the British Virgin Islands and owned by Ms. Kam Har YUE, Mr. Richard Man Fai LEE and Mr. Jeff Man Bun LEE.

Share options

1991 Scheme

The Company's share option scheme was adopted on June 22, 1991 ("1991 Scheme") for the primary purpose of providing incentives to Directors and eligible employees and expired on June 21, 2001. The Directors may, at their discretion, grant options to all eligible employees, including executive Directors of the Company and its subsidiaries.

The total number of shares in respect of which options may be granted under the 1991 Scheme is not permitted to exceed 10% of the issued share capital of the Company at any point in time. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the maximum aggregate number of shares of the Company for the time being issued and issuable under the 1991 Scheme.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options are exercisable within a period of 6 years commencing one month from the date of acceptance of options.

OTHER INFORMATION (CONTINUED)

Share options (Continued)

1991 Scheme (Continued)

The subscription price is determined by the Directors, and will not be less than the higher of a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant, and the nominal value of a share of the Company.

2001 Scheme

Another share option scheme ("2001 Scheme") was subsequently adopted pursuant to a resolution passed on June 28, 2001 for the primary purpose of providing incentives to Directors and eligible employees, and was terminated on May 30, 2002 pursuant to a resolution passed on that date.

Under the 2001 Scheme, the Directors may grant options to any full-time employees, including executive and non-executive Directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2001 Scheme is not permitted to exceed 10% of the issued share capital of the Company at any point in time. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the maximum aggregate number of shares of the Company for the time being issued and issuable under the 2001 Scheme.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options are exercisable within a period of 6 years commencing one month from the date of acceptance of options.

The subscription price is determined by the Directors, and will not be less than the higher of a price being not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant, and the nominal value of a share of the Company.

Upon termination of the 2001 Scheme, no further options will be granted but in all other respects, the provisions of the 2001 Scheme shall remain in force and all granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

OTHER INFORMATION (CONTINUED)

Share options (Continued)

2002 Scheme

On August 23, 2001, the Stock Exchange has announced amendments to Chapter 17 of the Listing Rules, which has come into effect on September 1, 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Company adopted a new share option scheme ("2002 Scheme") and terminated the 2001 Scheme on May 30, 2002 pursuant to a resolution passed on that date. The purpose of the 2002 Scheme is to provide incentives or rewards to participants for their contribution to the Group and enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any companies in which the Group holds any equity interest. The 2002 Scheme will expire on the 10th anniversary of date of adoption.

Under the 2002 Scheme, the Board of Directors of the Company may at their discretion grant options to the following participants of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for shares in the Company:

1. eligible employees, including Directors; or
2. suppliers or customers; or
3. any person or entity that provides research, development or other technological support; or
4. shareholders; or
5. employees, partners or Directors of any business partners, joint venture partners, financial advisers and legal advisers.

Options granted to a Director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who is the grantee).

The total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes must not in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the 2002 Scheme without prior approval from the Company's shareholders.

OTHER INFORMATION (CONTINUED)

Share options (Continued)

2002 Scheme (Continued)

The number of shares in respect of which options may be granted to any participant in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to a substantial shareholder, or an Independent Non-executive Director of the Company, or any of their respective associates under the 2002 Scheme and any other schemes in any one year in excess of 0.1% of the Company's issued share capital or with a value, based on the closing price of the shares of the Company at the date of each grant, in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$1 per each grant of options. The exercise period of the share options granted under the 2002 Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end later than 6 years from the date of grant. The subscription price is determined by the Board of Directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, or the average closing price of the shares for the five trading days immediately preceding the date of grant, or the nominal value of a share of the Company.

No Share Options were exercised or granted for the six months ended June 30, 2004.

At June 30, 2004, the number of shares in respect of which options had been granted and remained outstanding under the 1991, 2001 and 2002 Scheme were 79,112,395, 175,092,363 and 129,117,007 representing 3.6%, 7.9% and 5.8% of the issued share capital of the Company at that date respectively.

OTHER INFORMATION (CONTINUED)

Movement of share options

The following table discloses movement in the Company's share options for the six months ended June 30, 2004:

Eligible person	Scheme type	Date of grant	Outstanding at January 1, 2004	Lapsed during the period	Outstanding at June 30, 2004	Exercisable period	Exercise price HK\$
Mr. Wing Sum LEE (Director)	1991	January 19, 1998	4,719,470	4,719,470	-	February 22, 1998 – February 21, 2004	0.3655
	1991	December 21, 1999	10,225,519	-	10,225,519	February 11, 2000 – February 10, 2006	0.2325
	1991	February 11, 2000	4,719,470	-	4,719,470	March 21, 2000 – March 20, 2006	0.5422
	2001	August 10, 2001	55,060,504	-	55,060,504	September 16, 2001 – September 15, 2007	0.1661
	2002	September 24, 2002	640,640	-	640,640	September 24, 2002 – September 23, 2008	0.1000
			75,365,603	4,719,470	70,646,133		
Mr. Richard Man Fai LEE (Director)	1991	January 19, 1998	4,876,783*	4,876,783*	-	February 19, 1998 – February 18, 2004	0.3655
	1991	June 10, 1998	1,573,156	-	1,573,156	July 24, 1998 – July 23, 2004	0.1749
	1991	December 21, 1999	10,540,150*	-	10,540,150*	February 7, 2000 – February 6, 2006	0.2325
	1991	February 11, 2000	5,506,048	-	5,506,048	March 18, 2000 – March 17, 2006	0.5422
	1991	May 28, 2001	6,292,629	-	6,292,629	June 29, 2001 – June 28, 2007	0.1661
	2001	August 10, 2001	55,060,504	-	55,060,504	September 16, 2001 – September 15, 2007	0.1661
	2001	August 29, 2001	786,575*	-	786,575*	September 30, 2001 – September 29, 2007	0.1661
	2002	September 24, 2002	22,159,280	-	22,159,280	September 24, 2002 – September 23, 2008	0.1000
			106,795,125*	4,876,783*	101,918,342*		
Mr. Jeff Man Bun LEE (Director)	2002	June 4, 2002	3,146,314	-	3,146,314	June 4, 2002 – June 3, 2008	0.1000
	2002	September 24, 2002	1,430,000	-	1,430,000	September 24, 2002 – September 23, 2008	0.1000
			4,576,314	-	4,576,314		
Ms. Kam Har YUE (Director)	2001	August 29, 2001	786,575	-	786,575	September 30, 2001 – September 29, 2007	0.1661
Mr. Sammy Chi Chung SUEN (Director)	1991	December 21, 1999	471,944	-	471,944	February 6, 2000 – February 5, 2006	0.2325
	1991	February 11, 2000	786,575	-	786,575	March 22, 2000 – March 21, 2006	0.5422
	1991	January 18, 2001	409,019	-	409,019	March 6, 2001 – March 5, 2007	0.1661
	2001	August 10, 2001	1,573,156	-	1,573,156	September 19, 2001 – September 18, 2007	0.1661
	2002	June 4, 2002	6,292,629	-	6,292,629	June 4, 2002 – June 3, 2008	0.1000
2002	September 24, 2002	2,002,000	-	2,002,000	September 24, 2002 – September 23, 2008	0.1000	
			11,535,323	-	11,535,323		

* Share options granted to Mr. Richard Man Fai LEE's spouse were included.

OTHER INFORMATION (CONTINUED)

Movement of share options (Continued)

Eligible person	Scheme type	Date of grant	Outstanding at January 1, 2004	Lapsed during the period	Outstanding at June 30, 2004	Exercisable period	Exercise price HK\$
Mr. Raymond Cho Min LEE (Director)	2002	June 4, 2002	2,202,418	-	2,202,418	June 4, 2002 – June 3, 2008	0.1000
	2002	September 24, 2002	11,440	-	11,440	September 24, 2002 – September 23, 2008	0.1000
			2,213,858	-	2,213,858		
Mr. Boon Seng TAN (Director)	2002	June 4, 2002	2,202,418	-	2,202,418	June 4, 2002 – June 3, 2008	0.1000
	2002	September 24, 2002	11,440	-	11,440	September 24, 2002 – September 23, 2008	0.1000
			2,213,858	-	2,213,858		
Continuous contract employees	1991	January 19, 1998	2,529,585	2,529,585	-	February 20, 1998 – March 12, 2004	0.3655
	1991	December 21, 1999	1,895,571	9,438	1,886,133	February 1, 2000 – March 21, 2006	0.2325
	1991	February 11, 2000	519,136	-	519,136	March 18, 2000 – March 21, 2006	0.5422
	1991	September 8, 2000	4,719,470	-	4,719,470	November 5, 2000 – November 4, 2006	0.2347
	1991	May 28, 2001	31,463,146	-	31,463,146	June 30, 2001 – June 29, 2007	0.1661
	2001	August 10, 2001	55,060,504	-	55,060,504	September 14, 2001 – September 13, 2007	0.1661
	2001	August 29, 2001	5,191,389	-	5,191,389	September 30, 2001 – September 30, 2007	0.1661
	2001	November 23, 2001	1,573,156	-	1,573,156	December 23, 2001 – December 22, 2007	0.1661
	2002	June 4, 2002	66,859,148	-	66,859,148	June 4, 2002 – June 3, 2008	0.1000
	2002	September 24, 2002	22,159,280	-	22,159,280	September 24, 2002 – September 23, 2008	0.1000
			191,970,385	2,539,023	189,431,362		
			395,457,041	12,135,276	383,321,765		

OTHER INFORMATION (CONTINUED)

Purchase, sale or redemption of securities

During the six months ended June 30, 2004, the Company and its subsidiaries have not repurchased, sold or redeemed any of the Company's securities.

Corporate governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended June 30, 2004, 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 except in relation to guideline 7; as Non-executive Directors of the Company are appointed for a term expiring upon their retirement by rotation as required by the Company's Bye-Laws.

Audit committee

On September 1, 2004, Mr. Kenji Tak Hing CHAN was appointed Independent Non-executive Director and member of the Audit Committee of the Company. The Audit Committee of the Company comprises Mr. Raymond Cho Min LEE (Chairman), Mr. Boon Seng TAN and Mr. Kenji Tak Hing CHAN, all of whom are Independent Non-executive Directors of the Company.

The interim results have been reviewed by the Audit Committee of the Company.

By Order of the Board of Directors

Richard Man Fai LEE

Executive Chairman & CEO

Hong Kong, September 21, 2004