



*China Rich Holdings Limited*

# Interim Report 2003 - 2004

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**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 31 January 2004

	Notes	Six months ended 31 January	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	4	11,154	22,380
Cost of Sales		(8,419)	(14,855)
Gross profit		2,735	7,525
Other operating income		2,287	2,585
Administrative expenses		(20,633)	(24,748)
Loss from operations	5	(15,611)	(14,638)
Loss on deemed disposal of an associate		-	(1,729)
Share of results of associates		(10,185)	(8,140)
Finance costs		(2,069)	(3,243)
Loss before taxation		(27,865)	(27,750)
Taxation	6	-	-
Loss before minority interests		(27,865)	(27,750)
Minority interests		13	(39)
Net loss for the period	8	<u>(27,852)</u>	<u>(27,789)</u>
Loss per share – basic and diluted	8	<u>HK1.2 cents</u>	<u>HK1.2 cents</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 31 January 2004

		<b>31 January 2004</b>	31 July 2003
	<i>Notes</i>	<b>(Unaudited)</b>	(Audited)
		<b>HK\$'000</b>	HK\$'000
<b>Non-current assets</b>			
Investment properties	9	<b>155,417</b>	155,417
Fixed assets	10	<b>37,736</b>	39,572
Golf resort	11	<b>154,724</b>	155,746
Properties under development	12	<b>67,720</b>	67,506
Interest in associates	13	<b>31,741</b>	41,927
Trade debtors – due after one year	14	<b>5,005</b>	5,005
		<hr/> <b>452,343</b>	<hr/> 465,173
<b>Current assets</b>			
Properties for sale	12	<b>30,583</b>	32,825
Amount due from an associate		–	159
Trade and other debtors	15	<b>8,703</b>	14,384
Deposits and prepayments		<b>4,786</b>	2,276
Other deposit	16	<b>12,500</b>	12,500
Bank deposits, secured for credit facilities		<b>172,056</b>	172,455
Bank balances and cash		<b>4,058</b>	3,076
		<hr/> <b>232,686</b>	<hr/> 237,675

		<b>31 January 2004 (Unaudited) HK\$'000</b>	31 July 2003 (Audited) HK\$'000
Less: Current liabilities			
Bank overdrafts, secured		<b>171,805</b>	171,921
Trade and other creditors	17	<b>19,810</b>	15,550
Accrued charges		<b>23,949</b>	21,453
Amount due to an associate		<b>947</b>	1,018
Taxation payable		<b>16,403</b>	16,409
Obligations under finance leases			
– due within one year		–	25
Bank borrowings – due within one year, secured	18	<b>1,757</b>	1,727
Amounts due to directors		<b>5,571</b>	–
		<b>240,242</b>	228,103
Net current (liabilities)/assets		<b>(7,556)</b>	9,572
Total assets less current liabilities		<b>444,787</b>	474,745
Non-current liabilities			
Bank borrowings – due after one year, secured	18	<b>33,306</b>	35,399
Deferred taxation	19	<b>10,200</b>	10,200
		<b>43,506</b>	45,599
Minority interests		<b>824</b>	837
Net assets		<b>400,457</b>	428,309
Represented by:			
Share capital	20	<b>225,667</b>	225,667
Reserves	21	<b>174,790</b>	202,642
Shareholders' funds		<b>400,457</b>	428,309

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 31 January 2004

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Total equity at beginning of the period	428,309	555,106
Share of an associate's unrealised loss on investments in securities	-	(2,605)
Exchange gains on translation of overseas subsidiaries	-	1,607
Net loss for the period	<u>(27,852)</u>	<u>(27,789)</u>
Total equity at end of the period	<u><u>400,457</u></u>	<u><u>526,319</u></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 31 January 2004

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Restated)</b>
Net cash inflow from operating activities	2,622	5,719
Net cash inflow from investing activities	540	9,081
Net cash outflow from financing	<u>(2,064)</u>	<u>(5,334)</u>
Increase in cash and cash equivalents	1,098	9,466
Cash and cash equivalents at 1 August	<u>(168,845)</u>	<u>(180,993)</u>
Cash and cash equivalents at 31 January	<u><u>(167,747)</u></u>	<u><u>(171,527)</u></u>

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

### **1. General**

The Company is incorporated in the Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Everbest Holdings Group Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of medical and health services, sales of developed property and provision of golf resort facilities in the People's Republic of China ("the PRC").

### **2. Basis of preparation**

The unaudited consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The interim consolidated financial statements for the period from 1 August 2003 to 31 January 2004 (the "Period") are unaudited and have been reviewed by the Audit Committee of the Company.

### **3. Principal accounting policies**

The principal accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31 July 2003.

In the current period, the Group adopted the following revised SSAP issued by the HKICPA which is effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised) : Income taxes

This SSAP prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP, which have had a significant effect on the financial statements, are summarised as follows:

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance

sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively.

The adoption SSAP 12 (revised) has no material impact on the results for the current or prior accounting period.

#### 4. Turnover and segment information

Turnover represents the aggregate of sales revenue from the sales of properties in the PRC, the service income from the provision of medical and health services in the PRC, and the service income from the operation of golf resort in the PRC.

Segment information about these business is presented below:

##### ***Business segments***

for the six months ended 31 January 2004

##### **Results**

	Property development HK\$'000	Medical and health services HK\$'000	Golf resort HK\$'000	Consolidated HK\$'000
Segment revenue	<u>2,266</u>	<u>6,980</u>	<u>1,908</u>	<u>11,154</u>
Segment results	<u>(271)</u>	<u>(634)</u>	<u>(1,207)</u>	(2,112)
Unallocated corporate expenses				<u>(13,499)</u>
Loss from operations				(15,611)
Share of results of associates				(10,185)
Finance costs				<u>(2,069)</u>
Loss before taxation				(27,865)
Taxation				<u>-</u>
Loss before minority interests				(27,865)
Minority interests				<u>13</u>
Net loss for the period				<u><u>(27,852)</u></u>

***Business segments***

for the six months period 31 January 2003

**Results**

	Property development HK\$'000	Medical and health services HK\$'000	Golf resort HK\$'000	Consolidated HK\$'000
Segment revenue	<u>11,205</u>	<u>9,217</u>	<u>1,958</u>	<u>22,380</u>
Segment results	<u>(2,383)</u>	<u>1,017</u>	<u>(1,756)</u>	(3,122)
Unallocated corporate expenses				<u>(11,516)</u>
Loss from operations				(14,638)
Loss on deemed disposal of an associate				(1,729)
Share of results of associates				(8,140)
Finance costs				<u>(3,243)</u>
Loss before taxation				(27,750)
Taxation				<u>-</u>
Loss before minority interests				(27,750)
Minority interests				<u>(39)</u>
Net loss for the period				<u><u>(27,789)</u></u>



**Geographical segments**

The following tables provide an analysis of the Group's turnover by geographic market, irrespective of the origin of the goods/services.

	Revenue		Loss from operations	
	For the six months ended 31 January		For the six months ended 31 January	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical market:				
Hong Kong	-	1,073	(11,856)	(11,249)
PRC	11,154	21,307	(3,755)	(3,389)
	<u>11,154</u>	<u>22,380</u>	<u>(15,611)</u>	<u>(14,638)</u>
Loss from operations	<u>11,154</u>	<u>22,380</u>	<u>(15,611)</u>	<u>(14,638)</u>

**5. Loss from Operations**

	For the six months ended	
	31 January	
	2004	2003
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Depreciation and amortisation on:		
Owned assets	2,858	2,287
Assets held under finance leases	-	38
Operating lease rentals in respect of land and buildings	399	115
Staff costs, including directors' remuneration:		
Retirement benefits scheme contributions	69	66
Salaries and other benefits	5,834	7,808
Advertising and promotion expenses	-	30
Net foreign exchange loss	-	74
and after crediting:		
Interest income	(335)	(1,445)
Rental income, net	<u>(1,339)</u>	<u>(1,638)</u>

## 6. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not have any assessable profit for the six months ended 31 January 2004 (six months ended 31 January 2003: Nil).

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

## 7. Interim Dividend

The directors do not recommend payment of an interim dividend for the six months ended 31 January 2004 (six months ended 31 January 2003: Nil).

## 8. Loss per share

The calculation of the basic loss per share is based on the net loss for the six months ended 31 January 2004 of HK\$27,852,000 (six months ended 31 January 2003: HK\$27,789,000) and 2,256,666,196 (six months ended 31 January 2003: 2,256,666,196) ordinary shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of the potential shares since their exercise would result in a reduction in loss per share.

## 9. Investment properties

	31 January 2004 (Unaudited) HK\$'000	31 July 2003 (Audited) HK\$'000
At the beginning of the period/year	155,417	181,623
Deficit arising from revaluation	—	(26,206)
At the end of the period/year	<u>155,417</u>	<u>155,417</u>

Investment properties were revalued at their open market values at 31 July 2003 by Chesterton Petty Limited, an independent valuer, on an open market value basis.

The Group's investment properties with an aggregate carrying value of approximately HK\$19,548,000 (31 July 2003: HK\$19,548,000) have been pledged to secure credit facilities granted to the Group.

The investment properties are situated in the PRC under the long leases.

**10. Property, plant and equipment**

	Leasehold land and building HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
THE GROUP					
COST					
At 1 August 2003	67,070	6,732	2,950	1,399	78,151
Additions	-	-	-	-	-
<b>At 31 January 2004</b>	<b>67,070</b>	<b>6,732</b>	<b>2,950</b>	<b>1,399</b>	<b>78,151</b>
DEPRECIATION					
At 1 August 2003	30,432	5,700	2,106	341	38,579
Provided for the period	1,193	348	259	36	1,836
<b>At 31 January 2004</b>	<b>31,625</b>	<b>6,048</b>	<b>2,365</b>	<b>377</b>	<b>40,415</b>
NET BOOK VALUES					
<b>At 31 January 2004</b>	<b>35,445</b>	<b>684</b>	<b>585</b>	<b>1,022</b>	<b>37,736</b>
At 31 July 2003	36,638	1,032	844	1,058	39,572

The net book value of the Group's leasehold land and buildings included above are held under the following terms:

	31 January 2004 (Unaudited) HK\$'000	31 July 2003 (Audited) HK\$'000
Long leases in Hong Kong	23,461	23,900
Medium-term leases in the PRC	11,984	12,738
	<b>35,445</b>	<b>36,638</b>

## 11. Golf resort

	31 January 2004 (Unaudited) HK\$'000	31 July 2003 (Audited) HK\$'000
Cost		
At beginning of the period/year	162,789	-
Transfer from golf resort under construction	-	159,540
Exchange alignment	-	3,249
	<hr/>	<hr/>
At end of the period/year	162,789	162,789
	<hr/>	<hr/>
Depreciation and impairment		
At the beginning of the period/year	7,043	-
Depreciation provided for the period/year	1,022	2,043
Impairment loss	-	5,000
	<hr/>	<hr/>
At end of the period/year	8,065	7,043
	<hr/>	<hr/>
Net book value		
At 31 January 2004/31 July 2003	<b>154,724</b>	<b>155,746</b>
	<hr/> <hr/>	<hr/> <hr/>

The golf resort is situated in the PRC under a long term land use rights.

Impairment loss of HK\$5,000,000 at 31 July 2003 was recognised by reference to the valuation report issued by Chesterton Petty Limited dated 20 October 2004, which valued the golf resort on an open market value basis as of year end 31 July 2003.

## 12. Properties under development/properties for sales

Properties under development/properties for sale are situated in the PRC and are held under long term land use rights.

No impairment loss (year ended 31 July 2003: HK\$38,537,000) in respect of properties for sale was recognised during the period.

No impairment loss (year ended 31 July 2003: HK\$12,000,000) in respect of properties under development was recognised during the period.

Up to 31 January 2004, properties under development included net interest capitalised of approximately HK\$3,968,000 (31 July 2003: HK\$3,968,000).

**13. Interests in associates**

	<b>31 January 2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>31 July 2003</b> <b>(Audited)</b> <b>HK\$'000</b>
Share of net assets	<u><b>31,741</b></u>	<u><b>41,927</b></u>
Market value of listed securities	<u><b>43,937</b></u>	<u><b>36,183</b></u>

Details of the Group's associate at 31 January 2004 are as follows:

Name of associate	Place of incorporation/ registration	Place of operation	Effective percentage of shareholding		Principal activities
			Directly	Indirectly	
GreaterChina Technology Group Limited ("GreaterChina")	Cayman Islands	Hong Kong	29%	3%	Manufacturing and trading of traditional Chinese medicine products and provision of advertising portal development and information technology advisory and consultation services

Financial information of GreaterChina as extracted from its unaudited interim reports are as follows:

	<b>31 January 2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>31 July 2003</b> <b>(Audited)</b> <b>HK\$'000</b>
Non-current assets	<u><b>83,602</b></u>	<u><b>126,356</b></u>
Current assets	<u><b>121,516</b></u>	<u><b>87,805</b></u>
Current liabilities	<u><b>64,827</b></u>	<u><b>73,240</b></u>
Net loss for the period/year	<u><b>32,070</b></u>	<u><b>129,226</b></u>

#### 14. Trade debtors – due after one year

The amounts represent non-current portion of trade receivables from sales of completed properties. The amounts bear interest at commercial rates.

#### 15. Trade and other debtors

The Group allows an average credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade debtors at the balance sheet date:

	31 January 2004 (Unaudited) HK\$'000	31 July 2003 (Audited) HK\$'000
Aged:		
0 to 30 days	172	3,010
31 to 60 days	1,120	-
61 to 90 days	47	724
91 to 180 days	731	520
181 to 365 days	49	175
Over 365 days	6,584	9,955
	<u>8,703</u>	<u>14,384</u>

#### 16. Other deposit

A sum of HK\$12,500,000 was deposited into an interest bearing client's account kept by a legal firm as security in favour of the joint and several provisional liquidators ("Provisional Liquidators") of Wing Fai or any subsequently appointed liquidators of Wing Fai, for any judgement that may be obtained by the Provisional Liquidators and subsequent liquidators of Wing Fai of any action commenced within twelve months from 14 July 2002 and thereafter until the determination of the proceedings against the Company and/or any of the wholly owned subsidiaries of the Company in existence as at 14 July 2002.

#### 17. Trade and other creditors

	31 January 2004 (Unaudited) HK\$'000	31 July 2003 (Audited) HK\$'000
Aged:		
0 to 30 days	1,597	2,914
31 to 60 days	1,276	70
61 to 90 days	2,865	279
91 to 180 days	557	601
181 to 365 days	39	261
Over 365 days	13,476	11,425
	<u>19,810</u>	<u>15,550</u>

**18. Bank borrowings, secured**

	<b>31 January 2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>31 July 2003</b> <b>(Audited)</b> <b>HK\$'000</b>
Bank loans	<u>35,063</u>	<u>37,126</u>
The maturity of the above bank borrowings is as follows:		
On demand or within one year	1,757	1,727
More than one year but not exceeding two year	21,122	22,306
More than two years but not exceeding five year	5,852	5,922
More than five years	<u>6,332</u>	<u>7,171</u>
	<b>35,063</b>	<b>37,126</b>
Less: Amount due within one year shown under current liabilities	<u>(1,757)</u>	<u>(1,727)</u>
Amount due after one year	<u><b>33,306</b></u>	<u><b>35,399</b></u>

**19. Deferred taxation**

	<b>31 January</b> <b>2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>31 July</b> <b>2003</b> <b>(Audited)</b> <b>HK\$'000</b>
Balance at beginning of the period/year	10,200	20,600
Transfer to income statement	-	<u>(10,400)</u>
Balance at end of period/year	<u><b>10,200</b></u>	<u><b>10,200</b></u>

At the balance sheet date, balance of deferred taxation of HK\$10,200,000 (31 July 2003: HK\$10,200,000) represents tax effect of temporary difference arising from the surplus on revaluation of properties in the PRC upon acquisition by the Group.

A deferred tax asset of approximately HK\$16,582,000 (31 July 2003: HK\$16,582,000) has not been recognised in the financial statements in respect of estimated tax losses available to offset future profits as it is not certain that the estimated tax losses will be utilised in the foreseeable future.

## 20. Share capital

	Number of shares	Amount HK\$'000
Share of HK\$0.10 each		
Authorised:		
At 1 August 2003 and 31 January 2004	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
At 1 August 2003 and 31 January 2004	<u>2,256,666,196</u>	<u>225,667</u>

## 21. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Distributable reserve HK\$'000	Investment		Total HK\$'000
					revaluation reserve HK\$'000	Accumulated losses HK\$'000	
At 1 August 2003	399,499	11,613	1,596	77,033	(12,391)	(274,708)	202,642
Net loss for the Period	-	-	-	-	-	(27,852)	(27,852)
At 31 January 2004	<u>399,499</u>	<u>11,613</u>	<u>1,596</u>	<u>77,033</u>	<u>(12,391)</u>	<u>(302,560)</u>	<u>174,790</u>

The capital reserve of the Group represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganization in 1994.



## 22. Commitments

At the balance sheet date, the Group had the following future minimum lease payments under operating leases in respect of rented premises as follows:

	<b>31 January 2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>31 July 2003</b> <b>(Audited)</b> <b>HK\$'000</b>
Operating leases which expire:		
– within one year	<b>117</b>	301
– in the second to fifth year inclusive	<b>98</b>	563
	<b>215</b>	864

Operating leases payments in respect of land and buildings represent rental payables by the Group for its office premises. Leases are negotiated for an average term of four years.

## 23. Pledge of assets

At the balance sheet date leasehold land and buildings having a net book value of approximately HK\$21,840,000 (31 July 2003: HK\$21,840,000), bank deposits of approximately HK\$172,056,000 (31 July 2003: HK\$172,455,000), certain investment properties and certain properties for sale of the Group have been pledged to banks to secure credit facilities granted to the Group.

## 24. Contingent liabilities

- (a) The liquidators of Wing Fai Construction Company Limited (“Wing Fai”) and Wai Shun Construction Company Limited (“Wai Shun”) refused to recognise the effect of the set off of the inter-company accounts pursuant to the Set Off Agreement (the “Agreement”) dated 23 November 2001 and the extinguishment of inter-group indebtedness and incidental transactions and arrangements upon the Group’s sale of its interest in Wing Fai, Wai Shun and Zhukuan Wing Fai Construction Company Limited on 22 April 2002. As a result, the liquidators had taken up legal action against the Company and against several of its subsidiaries.

In the opinion of the Company’s legal advisor, the Group has a good defence on all the claims which, on the balance of probabilities, are likely to be resolved in favour of the Group companies. It is therefore unlikely that there would be any material contingent liability except that part of the legal costs incurred by the Group may not be recoverable on taxation.

- (b) The liquidator of Wing Fai has taken legal action against the Group and against three directors of the Group for alleged financial assistance. As at the date of approval of these financial statements, Wing Fai has yet to identify the payments and actions attributable to the Group and to three of its directors under which the claim is made, following a recent decision by the High Court, Wing Fai has now decided to discontinue its claim against one of the directors. In the opinion of the Company's legal advisor, in any event, the Group's liability should not exceed HK\$2,000,000 plus interest and cost.
- (c) Wing Fai has recently issued proceedings against the Company on 25 October 2004, in respect of a comfort letter issued by the Company to the directors of Wing Fai on 23 November 2001. The liquidators of Wing Fai maintain that this letter constitutes a contract by which the Company became obliged to pay the debts of Wing Fai for 12 months thereafter.

The Company's legal advisors are still at the formative stage of investigating the claim and in the process of instructing legal counsel to advise on the matter. However, their preliminary view is that the Company has a good defence which is likely to be resolved in the Company's favour.

It is therefore unlikely that there would be any material contingent liability except that the legal costs incurred by the Company may not be recoverable given the insolvent status of Wing Fai.

In the opinion of the directors, the Group has valid grounds to defend the action and as such, no provision has been made in the financial statements for the Group's exposure to the above actions.

- (d) In respect of the sum of HK\$40 million due from Wing Fai to Benefit Holdings International Limited ("Benefit"), a subsidiary of the Company, repayment was personally guaranteed by Mr. Eric Chim Kam Fai ("Mr. Chim"). In respect of the payment of the purchase price for the shares of the Wing Fai, Zhukuan Wing Fai Construction Company Limited and Wai Shun Construction Company Limited in the sum of HK\$5.1 million by Sino Glister International Investments Limited ("Sino Glister"), this was also personally guaranteed by Mr. Chim.

Wing Fai defaulted in repayment of HK\$40 million due to Benefit and is now in liquidation. Sino Glister defaulted as to HK\$3.1 million of the HK\$5.1 million purchase price for the shares of the Wing Fai Subsidiaries.

Benefit commenced High Court proceedings against Mr. Chim and Sino Glister on 30 May 2004 and has obtained a Judgment against Mr. Chim and Sino Glister in the sum of HK\$43 million plus interest and costs. It is unknown to what extent if any the sums adjudicated in favour of Benefit will be recoverable from either Sino Glister or Mr. Chim and the sum of HK\$43 million is therefore treated as a contingent receivable of Benefit.

- (e) The Company has given corporate guarantees to banks in respect of banking facilities granted to its subsidiaries of which approximately HK\$15,897,000 (31 July 2003: HK\$16,610,000) were utilised at the balance sheet date.

## **25. Material related party transactions**

During the period, the Group entered into the following related party transactions:

- (i) The Group received rental of HK\$495,000 (six months ended 31 January 2003: HK\$1,073,000) from GreaterChina and its subsidiaries (the "GreaterChina"). The charge is based on the areas occupied by GreaterChina Group pursuant to the agreement entered into between the parties. The unit rate per square feet was determined the directors based on estimated market rates.
- (ii) The Group received administrative service fee of approximately HK\$548,000 (six months ended 31 January 2003: HK\$360,000) from the GreaterChina Group. The fee is charged at a fixed monthly fee pursuant to the agreement entered into between the parties. The fee was determined by directors based on estimated time spent by the staff of the Group on the affairs of the GreaterChina Group.
- (iii) The Group received website development fee of HK\$240,000 (six months ended 31 January 2003: HK\$720,000) from the GreaterChina Group pursuant to the agreement entered into between the parties dated 3 January 2000. The fee was determined at prices agreed between the parties.
- (iv) The Group paid information technology advisory fee of HK\$125,450 (six months ended 31 January 2003: Nil) to the GreaterChina Group. The fee was determined at price agreed between parties.

## **26. Comparative amounts**

Certain comparative amounts have been reclassified to conform with current period's presentation.

## **CHAIRMAN'S STATEMENT**

The year 2003 was a year full of challenges for the Hong Kong as well as the global market. The eruption of SARS had caused the economy to decline dramatically and the performance of the Group was inevitably affected by the dismal economic conditions. Although the market showed signs of recovery in the latter half of 2003, market condition remained generally weak due to low consumer confidence. Amid the sluggish economy, the Group had adopted a conservative approach and implemented a stringent cost control policy to improve the cost effectiveness. Despite the results of the Group for the period under review was disappointing, we believed, our experience, established foundation, and well developed network and relationship will enable us to restore profit position and remain competitive against future challenges. We will continue to devote our efforts to explore business opportunities and strengthen its existing business structure to support the Group's growth in the future and thus to enhance the shareholders' worth.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review and Segment Information**

The Group recorded a turnover of approximately HK\$11.2 million for the six months ended 31 January 2004 as compared to a turnover of HK\$22.4 million in the corresponding period last year. The reduction in turnover by approximately 50% is mainly due to the continued economic downturn after the outbreak of Severe Acute Respiratory Syndrome (SARS) in the early months of 2003. However, the Group had implemented stringent financial control policy and had successfully reduced the administrative expenses by 16.6% for current period under review as compared to the corresponding period last year. The Group incurred a net loss of HK\$27.9 million for the six months ended 31 January 2004 as compared to a net loss of HK\$27.8 million for the six months ended 31 January 2003.

Under the poor economic condition in Hong Kong during the period, the Group adopted a prudent approach in business developments in Hong Kong but more focused on the provision of medical and health services and golf club recreational services in the PRC. Approximately 100% of turnover for the period was generated from the business segments in mainland China (six months ended 31 January 2003: 95.2%).

With the Group's successful business diversification into residential developments, health care and recreational services in the PRC, the major revenue of HK\$7.0 million (six months ended 31 January 2003: HK\$9.2 million) for the period was derived from the provision of medical and health services by Guangdong Concord Medical Centre, a private state-of-the-art medical center in Guangdong Province, which amounted to an approximately 62.6% of the Group turnover (six months ended 31 January 2003: 41.2%). The Directors are of an opinion that this segment will remain as the core business of the Group in the coming years.

During the period under review, there was no significant acquisitions and disposals of any subsidiaries.

**Liquidity, Financial Resources & Gearing**

The operation of the Group was mainly financed by internal resources generated and banking facilities such as bank loans, finance leases and overdrafts. As at 31 January 2004, the total secured bank borrowings amounted to approximately HK\$206.9 million, a slight decrease of approximately HK\$2.1 million as compared with approximately HK\$209.0 million as at 31 July 2003. 4.9% of the secured bank borrowings, finance leases and hire purchase contracts will be repayable within one year. Interest expenses were levied on the banks' best lending rate and in line with the interest rate of the Group's deposit.

Bank deposit of HK\$172.1 million (31 July 2003: HK\$172.4 million), leasehold land and buildings, certain investment properties and certain completed properties for sale amounted to a net book value of approximately HK\$38.5 million (31 July 2003: HK\$38.5 million) have been pledged to the banks to secure the banking facilities. As at the balance sheet date, the current ratio was 0.97 (31 July 2003: 1.04). In respect to the gearing ratio, defined as a ratio of total bank borrowings to net asset was 51.7% (31 July 2003: 48.8%). Shareholders' equity decreased by 6.5% to HK\$400.5 million (31 July 2003: 428.3 million).

Borrowings and sales and purchases of the Group are generally transacted in Hong Kong Dollar and Renminbi. The exposure in exchange risk was minimal since the exchange rate against Hong Kong Dollar and Renminbi was relatively secured.

**Employees**

As at the balance sheet date, the Group hired over 200 employees both in Hong Kong and China (31 July 2003: over 200). Remuneration package of the staff includes monthly salary, medical claims and share options. As to our investment on human resources, education subsidies would be granted to the staff, with a view to reinforce the competence of all levels of our employees. Share options would be granted to respective staff with outstanding performance and contributions to the Group.

**Future Plan**

In view of the depressed global economic environment, the Group grasps every opportunity to sharpen its competitive edge and to strive to further expand its strategic business developments with proactive approach. Seeking for new potential investments would continue to be one of the key objectives of the Group in 2004. The Directors believe that the Group will be able to breakthrough the challenges in the years ahead and will advance to a remarkable growth in both the turnover and profit.

**DIRECTORS' INTERESTS IN SHARES AND OPTIONS**

At 31 January 2004, the interests of the directors in the share capital of the Company and the associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as notified to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, were as follows:

**i) Shares*****Shares in the Company***

Name of director	Personal interest	Corporate interest
	Number of shares held	Number of shares held
Mr. Yip Kwong, Robert	27,000,000	819,518,739
Ms. Cheng Kit Yin, Kelly	71,574,000	-

*(Note a)*

*Note a:* These shares are owned by Central Securities Holding Limited, a wholly-owned subsidiary of Everbest Holdings Group Limited which is a company wholly owned by Mr. Yip Kwong, Robert.

**Shares in GreaterChina Technology Group Limited ("GreaterChina")**

Name of director	Personal interest	Corporate interest
	Number of shares held	Number of shares held (Note b)
Mr. Yip Kwong, Robert	1,201,500	280,673,394
Ms. Cheng Kit Yin, Kelly	44,046,020	-

*Note b:* 258,451,559 shares are owned by the Company, in which Mr. Yip Kwong, Robert was interested in 846,518,739 shares in the Company, representing approximately 37.5% interest in the Company as at 31 January 2004 and 22,221,835 shares are owned by Central Securities Holdings Limited.

**ii) Options**

**Options in the Company**

Name of director	Date of grant	Exercise price HK\$	Number of share options outstanding as at
			1 August 2003 and 31 January 2004
Mr. Yip Kwong, Robert	5 March 1997	0.43	5,000,000
	26 January 2000	0.30	8,000,000
	22 March 2000	0.33	10,000,000
Ms. Cheng Kit Yin, Kelly	5 March 1997	0.43	5,000,000
	26 January 2000	0.30	4,000,000
	22 March 2000	0.33	10,000,000
Mr. Kam Shing	26 January 2000	0.30	3,000,000
Dr. Wong King Keung, Peter	26 January 2000	0.30	5,000,000

There were no options granted to or exercised by the directors during the period.

***Options in GreaterChina***

Name of director	Date of grant	Exercise price HK\$	Outstanding as at
			1 August 2003 and 31 January 2004
Ms. Cheng Kit Yin, Kelly	19 December 2000	0.218	16,000,000
	4 June 2002	0.234	51,808,000
Mr. Kam Shing	19 April 2002	0.234	1,000,000
Dr. Lau Lap Ping	19 April 2002	0.234	1,000,000

Save as disclosed above, at no time during the year was the Company, its ultimate holding company, or any subsidiaries of its ultimate holding company a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

Save as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, at 31 January 2004, neither the directors nor the chief executives, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SFO.

**SHARE OPTION SCHEMES**

Pursuant to a special general meeting of the Company held on 30 September 1994, the Company adopted an old share option scheme (the "Old Scheme") pursuant to which the directors were authorized to grant options to employees, including executive directors, of the Company or its subsidiaries to subscribe for shares of the Company at a price equal to the higher of the nominal value of the shares and an amount 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 the grant of the options, subject to maximum of 10% of the issued share capital of the company from time to time.



Options granted under the Old Scheme will entitle the holder to subscribe for shares from the date of grant up to 30 September 2004.

As at 31 January 2004, options to subscribe for an aggregate of 50,800,000 shares of the Company had been granted to certain directors and employees pursuant to the Old Scheme. No options were granted during the period ended 31 January 2004.

On 10 January 2002, the Company passed an ordinary resolution regarding the termination of the Old Scheme and adopted a new share option scheme (the "New Scheme") for the primary purpose of providing incentive to the eligible employees and directors of the Company. Under the terms of the New Scheme, the board of directors of the Company may, at their discretion, grant options to the participants who fall within the definition prescribed in the New Scheme including the employees and executive directors of the Company or its subsidiaries to subscribe for shares in the Company at a price equal to the highest of (i) an amount not less than the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options; (ii) the closing price of the shares on the Stock Exchange on the day of the offer of grant of the options; and (iii) the nominal value of the shares. The number of shares in respect of which options may be granted to any individual 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 substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders. Options granted under the New Scheme will entitle the holder to subscribe for shares from the date of grant up to 9 January 2012. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

No options were granted to any directors and employees of the Company during the period ended 31 January 2004 pursuant to the New Scheme.

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The following table disclosed movements in the Company's share option during the period:

Name of director	Date of grant	Exercise price HK\$	Number of share options outstanding as at 1 August 2003 and 31 January 2004
Mr Yip Kwong, Robert	5 March 1997	0.43	5,000,000
	26 January 2000	0.30	8,000,000
	22 March 2000	0.33	10,000,000
Ms. Cheng Kit Yin, Kelly	5 March 1997	0.43	5,000,000
	26 January 2000	0.30	4,000,000
	22 March 2000	0.33	10,000,000
Mr. Kam Shing	26 January 2000	0.30	3,000,000
Dr. Wong King Keung, Peter	26 January 2000	0.30	<u>5,000,000</u>
Total			50,000,000
Employees	26 January 2000	0.30	<u>800,000</u>
			<u><u>50,800,000</u></u>

Details of the outstanding share options are as follows:

<b>Number of share options</b>	<b>Date of grant</b>	<b>Exercise price per share HK\$</b>	<b>Exercise period</b>
10,000,000	5 March 1997	0.43	From date of grant to 30 September 2004
20,800,000	26 January 2000	0.30	From date of grant to 30 September 2004
20,000,000	22 March 2000	0.33	From date of grant to 30 September 2004
<hr/> <b><u>50,800,000</u></b>			

The options may be exercised at any time within the exercise period provided that the options have been vested. Generally, the options are vested in different tranches and are cancelled where the grantee ceased to be employed by the Group.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Details of the Group's transactions with GreaterChina, in which Ms. Cheng Kit Yin, Kelly is interested by virtue of her shareholding in GreaterChina and is the chairman of GreaterChina, and Mr. Kam Shing and Dr Lau Lap Ping are non-executive directors of GreaterChina, are set out in note 25 to the financial statements.

Save as disclosed above, no contracts of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the 31 January 2004 or at any time during the period.

## **SUBSTANTIAL SHAREHOLDERS**

Save as the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having an interest of 5% or more of the issued share capital of the Company as at 31 January 2004.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 January 2004.

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

The Company has complied throughout the six months ended 31 January 2004 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The members of the audit committee have reviewed the interim financial statements of the Group for the six months ended 31 January 2004 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

**BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises of three executive Directors, namely, Mr. Yip Kwong, Ms. Cheng Kit Yin, Kelly and Mr. Kam Shing and three independent non-executive Directors, namely, Dr. Lau Lap Ping, Dr. Wong King Keung, Peter and Mr. Siu Edmund.

By Order of the Board  
**Yip Kwong, Robert**  
*Chairman*

Hong Kong, 12 November 2004