



大家樂集團有限公司
CAFÉ DE CORAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)



Interim Report 2004
中期報告



“Putting People First” is the constant driving force in our quest for excellence in whatever we do.

Interim Report To Shareholders

For the six months ended 30th September, 2004

HIGHLIGHTS

- The Group's half-year profit attributable to shareholders grew by an encouraging 23.6% over the same period last year, to exceed the HK\$117 million mark.
- The competitive edge of our strong branding and pricing power of both *Café de Coral* and *The Spaghetti House* have protected our profit margin from being eroded by the rising cost increments.
- Our established *Café de Coral* outlets in the PRC, coupled with the recent re-entry in the first tier cities of Guangzhou and Shanghai, have all recorded meaningful profitability and consistent earning growth.
- The quick business turn-around of *Oliver's Super Sandwiches* has begun to contribute to the Group's profitability.
- The Board of Directors has decided to again increase our interim dividend by 17.2% over that of last year, declaring a payment of 7.5 cents per share.
- The Group was awarded the "IT Excellence Awards" while *The Spaghetti House* won the "2004 Service Retailer" Award, whereas our Group's Chairman was also bestowed with the "Hong Kong Business Mastermind" Award.

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Condensed Consolidated Profit and Loss Account

	<i>Note</i>	Unaudited six months ended 30th September,	
		2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2, 3	1,489,582	1,293,571
Cost of sales		(1,285,217)	(1,127,141)
Gross profit		204,365	166,430
Administrative expenses		(65,841)	(57,254)
Other income		19,087	16,298
Profit from operations		157,611	125,474
Finance costs		(132)	(158)
		157,479	125,316
Share of profit/(loss) of			
– An associated company		613	575
– Jointly controlled entities		(13,337)	(13,377)
Profit before taxation		144,755	112,514
Taxation	4	(27,048)	(17,303)
Profit attributable to shareholders	5	117,707	95,211
Dividends	6		
– Interim		40,174	33,996
– Special		–	33,996
		40,174	67,992
Basic earnings per share	7	22.02 cents	17.95 cents
Diluted earnings per share	7	21.64 cents	17.63 cents

Condensed Consolidated Balance Sheet

	<i>Note</i>	Unaudited 30th September, 2004 HK\$'000	Audited 31st March, 2004 HK\$'000
Non-current assets			
Fixed assets	8	870,507	876,337
Intangibles	8	19,870	21,289
Investment in an associated company		1,566	1,180
Investment in jointly controlled entities	9	70,235	63,597
Held-to-maturity securities		221,878	167,313
Other non-current assets		1,963	4,901
Deferred tax assets		4,232	5,358
		1,190,251	1,139,975
Current assets			
Stocks, at cost		66,059	50,994
Prepayments and deposits		151,255	113,459
Trade and other debtors	10	36,684	29,541
Short-term investments		24,367	24,722
Cash and bank balances		499,929	473,243
		778,294	691,959
Current liabilities			
Short-term bank loans, secured		50,000	10,000
Trade creditors	10	84,270	62,087
Other creditors and accrued liabilities		234,896	183,953
Taxation payable		33,356	12,126
		402,522	268,166
Net current assets		375,772	423,793
Total assets less current liabilities		1,566,023	1,563,768
Non-current liabilities			
Deferred tax liabilities		17,644	15,435
Net assets		1,548,379	1,548,333

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Condensed Consolidated Balance Sheet *(continued)*

		Unaudited	Audited
		30th September,	31st March,
	<i>Note</i>	2004	2004
		HK\$'000	HK\$'000
Capital and reserves			
Share capital	<i>11</i>	53,560	53,119
Reserves (including interim dividend declared of HK\$40,174,000; 31st March, 2004: final and special dividends proposed of HK\$131,292,000)	<i>12</i>	1,494,819	1,495,214
Shareholders' equity		1,548,379	1,548,333

Condensed Consolidated Statement of Changes in Equity

	<i>Note</i>	Unaudited six months ended 30th September,	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total equity at beginning of period		1,548,333	1,463,148
Exchange differences arising on translation of foreign subsidiaries	12	810	2,793
Profit attributable to shareholders		117,707	95,211
Dividends	12	(131,481)	(95,586)
Issue of shares under share option scheme	12	13,010	10,266
Repurchase of shares	12	—	(27,103)
Total equity at end of period		<u>1,548,379</u>	<u>1,448,729</u>

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Condensed Consolidated Cash Flow Statement

	Unaudited six months ended 30th September,	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net cash inflow from operating activities	230,165	162,458
Net cash outflow in investing activities	(123,372)	(211,184)
Net cash outflow in financing activities	(78,603)	(322,581)
Net increase/(decrease) in cash and bank balances	28,190	(371,307)
Effect of foreign exchange rate changes	(1,504)	749
Cash and bank balances, beginning of period	473,243	733,281
Cash and bank balances, end of period	499,929	362,723

Notes to the Condensed Accounts

1. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are 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 (the “HKICPA”). These condensed accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and method of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March, 2004.

2. Turnover

Turnover comprises (i) the value of sales in the normal course of restaurant and catering, food processing and distribution business, and (ii) rental income.

3. Segment information

No segment information is provided as over 90% of the turnover and contribution to the Group’s results are attributable to the restaurants and catering services in Hong Kong.

4. Taxation

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

Notes to the Condensed Accounts *(continued)*

4. Taxation *(continued)*

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

	Unaudited six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	21,427	20,822
Overseas taxation	1,726	1,018
Deferred taxation relating to the origination and reversal of temporary differences	3,335	863
	<u>26,488</u>	<u>22,703</u>
Share of taxation attributable to:		
Associated company	107	101
Jointly controlled entities	453	(5,501)
	<u>27,048</u>	<u>17,303</u>

5. Profit attributable to shareholders

Profit attributable to shareholders is stated after charging the following:

	Unaudited six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
Depreciation of fixed assets	65,439	68,556
Amortisation of goodwill	67	44
Amortisation of trademarks	1,352	1,352
Loss on disposal of fixed assets	33	512
Provision for impairment in other investments	2,523	–

Notes to the Condensed Accounts (*continued*)

6. Dividends

	Unaudited six months ended 30th September,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends proposed		
– Interim, 7.5 cents (2003: 6.4 cents) per share	40,174	33,996
– Special, Nil (2003: 6.4 cents) per share	–	33,996
	40,174	67,992
	40,174	67,992

Notes:

- (a) At a meeting held on 13th July, 2004, the directors proposed a final dividend of 18 cents per ordinary share and a special dividend of 6.55 cents per ordinary share for the year ended 31st March, 2004 and has been reflected as an appropriation of retained profits for the six months ended 30th September, 2004.
- (b) At a meeting held on 8th December, 2004, the directors declared an interim dividend of 7.5 cents per share for the year ending 31st March, 2005. This dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained profits for the year ending 31st March, 2005.

7. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK\$117,707,000 (2003: HK\$95,211,000).

The basic earnings per share are based on the weighted average of 534,619,661 (2003: 530,368,361) ordinary shares in issue during the period. The diluted earnings per share is based on 544,011,313 (2003: 540,130,179) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the effect of dilutive potential ordinary shares of 9,391,652 (2003: 9,761,818) ordinary shares if all outstanding share options had been exercised.

Notes to the Condensed Accounts (*continued*)

8. Fixed assets and intangibles

	Fixed assets	Intangibles	
	HK\$'000 (Unaudited)	Goodwill HK\$'000 (Unaudited)	Trademarks HK\$'000 (Unaudited)
Net book value, 1st April, 2004	876,337	1,239	20,050
Additions	60,499	–	–
Disposals	(890)	–	–
Depreciation/Amortisation	(65,439)	(67)	(1,352)
	<u>870,507</u>	<u>1,172</u>	<u>18,698</u>

9. Investment in jointly controlled entities

	Unaudited 30th September, 2004 HK\$'000	Audited 31st March, 2004 HK\$'000
Investment in unlisted shares, at cost	56,250	56,250
Share of accumulated losses	(40,482)	(25,877)
Due from jointly controlled entities	43,880	24,951
Cumulative translation differences	10,587	8,273
	<u>70,235</u>	<u>63,597</u>

The amounts due from the jointly controlled entities are unsecured, non-interest bearing and not repayable within the next twelve months. The Group's share of net loss from the jointly controlled entities during the period was approximately HK\$13,790,000 (2003: HK\$7,876,000).

10. Trade debtors and creditors – credit policy and aging analysis

The Group's sales to customers are mainly on a cash basis. The Group also grants a credit period which is usually less than 90 days to certain customers for the sales of the Group's institutional catering services and food manufacturing businesses.

As at 30th September, 2004, approximately 86% (31st March, 2004: 90%) of the Group's trade debtors were aged less than 60 days and over 97% (31st March, 2004: 99%) of the trade creditors were aged less than 60 days.

Notes to the Condensed Accounts (continued)

11. Share capital

(a) Share capital

	Unaudited 30th September, 2004		Audited 31st March, 2004	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal Value HK\$'000
Authorised				
Ordinary shares of HK\$0.10 each				
Beginning and end of period/year	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid				
Beginning of period/year	531,194	53,119	533,640	53,364
Shares issued under share option scheme (Note 11(b))	4,410	441	3,520	352
Shares purchased and cancelled by the Company	–	–	(5,966)	(597)
End of period/year	<u>535,604</u>	<u>53,560</u>	<u>531,194</u>	<u>53,119</u>

(b) Share options

Details of executive share options were as follows:

Date of grant	Subscription price	As at 1st April, 2004	Number of shares		As at 30th September, 2004
			Exercised during the period	Cancelled as a result of termination of employment during the period	
4th November, 1999	HK\$2.95	<u>19,640,000</u>	<u>(4,410,000)</u>	<u>(180,000)</u>	<u>15,050,000</u>

The outstanding share options are exercisable during the period from 1st April, 2004 to 31st March, 2013.

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Notes to the Condensed Accounts (continued)

12. Reserves

	Share premium	Capital redemption reserve	Exchange translation reserve	Capital reserve	Property revaluation reserve	Contributed surplus	Retained profits	Total
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
At 1st April, 2003,								
as previously reported	46,573	124,931	1,386	(2,470)	-	112,300	1,120,334	1,403,054
Changes in accounting policy								
- adoption of SSAP 12	-	-	-	-	-	-	6,730	6,730
At 1st April, 2003, as restated	46,573	124,931	1,386	(2,470)	-	112,300	1,127,064	1,409,784
Premium on shares issued upon exercise of share options	9,918	-	-	-	-	-	-	9,918
Reduction in share premium upon repurchase of shares	(26,506)	-	-	-	-	-	-	(26,506)
Transfer of reserves on repurchase of shares	-	27,103	-	-	-	(27,103)	-	-
Exchange differences arising on translation of foreign subsidiaries	-	-	2,793	-	-	-	-	2,793
Profit attributable to shareholders	-	-	-	-	-	-	95,211	95,211
Dividends	-	-	-	-	-	-	(95,586)	(95,586)
At 30th September, 2003	29,985	152,034	4,179	(2,470)	-	85,197	1,126,689	1,395,614
At 1st April, 2004	30,099	152,034	8,795	(2,470)	-	85,197	1,221,559	1,495,214
Premium on shares issued upon exercise of share options	12,569	-	-	-	-	-	-	12,569
Exchange differences arising on translation of foreign subsidiaries	-	-	810	-	-	-	-	810
Profit attributable to shareholders	-	-	-	-	-	-	117,707	117,707
Dividends	-	-	-	-	-	-	(131,481)	(131,481)
At 30th September, 2004	42,668	152,034	9,605	(2,470)	-	85,197	1,207,785	1,494,819

Notes to the Condensed Accounts (*continued*)

13. Commitments and contingent liabilities

(a) *Operating lease commitments*

As at 30th September, 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30th September, 2004 <i>HK\$'000</i>	Audited 31st March, 2004 <i>HK\$'000</i>
Land and buildings		
– Not later than one year	263,488	262,233
– Later than one year and not later than five years	285,703	311,356
– Later than five years	21,595	21,523
	570,786	595,112

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rentals payable, if any, when turnover of individual restaurants exceeds a pre-determined level as it is not possible to determine in advance the amount of such additional rentals.

(b) *Capital commitments*

	Unaudited 30th September, 2004 <i>HK\$'000</i>	Audited 31st March, 2004 <i>HK\$'000</i>
Acquisition of fixed assets		
Contracted but not provided for	11,452	12,302
Authorised but not contracted for	78,178	114,234
	89,630	126,536

(c) *Guarantees*

As at 30th September, 2004, the Company has given guarantees totalling approximately HK\$922,513,000 (31st March, 2004: HK\$946,095,000) to financial institutions in connection with the total banking facilities granted to its subsidiaries and in respect of the outstanding loans drawn by certain jointly controlled entities. In addition, the Group's interests in the issued shares of the jointly controlled entities are pledged as securities against the bank loans of the jointly controlled entities.

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PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th September, 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's shares.

INTERIM DIVIDEND

In acknowledging continuous supports from our shareholders, the Directors have declared the payment of an interim dividend of 7.5 cents (2003: 6.4 cents and a special dividend of 6.4 cents) per share in respect of the year ending 31st March, 2005, payable on 11th January, 2005 to those persons registered as shareholders on 3rd January, 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 3rd January, 2005 (Monday) to 4th January, 2005 (Tuesday), both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrars, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 31st December, 2004 (Friday).

CHAIRMAN'S STATEMENT

In my previous annual report to all shareholders, I reckoned the year 2004, with all the uncertainties following the aftermaths of SARS in Hong Kong, would require management to follow a clear and acute business strategy in successfully executing all the intended strategic initiatives, in order to deal with the increasing cost pressures at home and business challenges aboard.

Our results in the previous six months serve as clear evidence that we have been able to deal with these formidable challenges successfully. Indeed, I am pleased to report that we did rise to the occasion with the Group's half-year profit attributable to shareholders grew by 23.6% over the same period last year, while the Group's turnover for this 6 months period also grew by 15.2%. The Group's financial position as at 30th September, 2004 continued to be very strong, with a net cash of close to about HK\$450 million and available banking facilities of approximately HK\$836 million. For that matter, since the Group continues to maintain a healthy net cash position for funding future potential development, I would recommend to the Board to return value to our shareholders by distributing an interim dividend of 7.5 cents per share, an increase of 17.2% over that of last year.

Regarding the foreign exchange fluctuations, it should be noted that the Group earns revenue and incurs costs and expenses mainly in Hong Kong dollars, while that of our North America and PRC jointly controlled entities are denominated in United States dollars, Canadian dollars and Renminbi respectively. We would continue to take proactive measures and monitor closely of our exposure to such currency movement. As of 30th September, 2004, the Group's total borrowings payable within the year was HK\$50,000,000 (31st March, 2004: HK\$10,000,000) and maintained a healthy gearing (being total borrowings over shareholders' equity) of 3.23% (31st March, 2004: 0.65%) with no material changes in contingent liabilities and charges on assets. As of 30th September, 2004, the Company has given guarantees to financial institutions totalling approximately HK\$922,513,000 (31st March, 2004: HK\$946,095,000), in connection with the total banking facilities granted to its subsidiaries and in respect of the outstanding loans drawn by certain jointly-controlled entities.

CHAIRMAN'S STATEMENT *(continued)*

Overcoming Challenges

In the months under review, we are encouraged that retail spending improved under signs of economic recovery, and our own business volume increased riding on the back of our aggressive shop image uplift program undertaken during the SARS period. But at the same time, much as I expected, cost increase in raw materials and rental during this same period also pose potential challenges.

As attested by our encouraging results, not only are we able to protect the profit margin of our core business from being eroded by any such cost increments, we also continue to achieve efficiency and productivity enhancement. On the one hand, the strong branding and pricing power of both our *Café de Coral* and *The Spaghetti House* have minimized the cost impact of raw materials without resorting to drastic pricing hike, whereas on the other hand, the full scale implementation of our computerized Business Management System has also enhanced our marketing effectiveness and operational efficiencies both in the front end and at the back office.

At the same time of course, with the gradual dissipation of the negative impact of SARS since the beginning of this fiscal year, we have been able to recuperate on some of our institutional catering business, as both our *Asia Pacific* institutional catering and *Luncheon Star* student catering businesses have both witnessed an encouraging business turn-around. Having said that however, we have reservation of its business volume returning to the pre-SARS period owing to the change of visitors' policy at most of the hospital outlets.

Capturing Opportunities

Recognizing that the China market could well be a meaningful growth driver for the future of the Group, we have embarked on a multi-directional development strategy in China. On the one hand, since our taking up of the management control of the restaurant operation of the 75 store restaurant chain of *New Asia Dabao* in Eastern China, I am pleased of our initial success in implementing a series of value-added business improvement initiatives, which should be fruit-bearing for this sizable growth platform in the upcoming years. At the same time, we have been relentless in testing out new grounds with our business re-entry in the first tier cities of China, such as our first *Spaghetti House* restaurant in Shenzhen, and the recent openings of *Café de Coral* in Guangzhou and Shanghai.

CHAIRMAN'S STATEMENT *(continued)*

Capturing Opportunities *(continued)*

As I reported to you last year, we are also embarking on a more aggressive branch development program in Southern China. The continuous penetration in this market has brought our current number of restaurants in this region to 14. We are gratified of our persistence in maintaining our flagship stores in the China market, as our established *Café de Coral* set up some ten years ago have all now recorded meaningful profitability and consistent earning growth. Of course, it is equally encouraging to report that all our new branch openings in the region also managed to deliver satisfactory results.

Insofar as our recent acquisition of the entire operations of *Oliver's Super Sandwiches* restaurant chain here at home is concerned, I am glad to report that we have been able to quickly regain the momentum for this business within a short duration of a year. By revamping its business model, fine-tuning its product mix, rationalizing its costing structures, renovating its shop images, and opening successful new stores, the *Oliver's Super Sandwiches* is well on its way to become another meaningful profit generator for the Group.

Sustainable Development

Across the ocean, our North America business continued with its process of business consolidation and restructuring under the hands of our managing partner. While we are disappointed with the business performance of this restaurant chain, I have reiterated in my previous statement that it is in the best long term interest for our shareholders to take on a more prudent approach, with proactive write-off on certain non-performing assets, in the accounting treatment of this overseas development initiatives, even though it might depress the short term performance of the Group. It is otherwise gratifying to know however, that the overheads for these jointly-controlled entities during the past months have been reduced and under control as compared to same period last year. Going forward, seeing ourselves assuming greater financial scrutiny and responsibility in corporate governance, we entrust our overseas partner would ensure the management team of these jointly-controlled entities to deliver the business targets as set out for the year.

CHAIRMAN'S STATEMENT *(continued)*

Recognition

The Group continued to receive awards and recognition for our management excellence from our peers in the business community.

We are pleased to report that the Group was elected as the winner of the “**IT Excellence Awards**” from the *Hong Kong Computer Society* and *The Spaghetti House* also won a distinguished service award namely “**2004 Service Retailer (Food and Catering Category)**” by *Hong Kong Retail Management Association*, while I have personally been bestowed with the “**Hong Kong Business Mastermind**” Award.

As of 30th September, 2004, the Group had become one of the key local employers with total employment on our payroll reaching the landmark number of 10,000, with essentially the same remuneration and benefits package as disclosed in the latest published annual report. I would like to express my heartfelt gratitude to every member of our staff for their continued commitment and perseverance. I must also take this opportunity to extend my sincerer gratitude to members of the Board of Directors for their invaluable advice and encouragement in the past 6 months, in particular to the long and dedicated contribution of Ms. Leung Sau Lai, Kathy, who recently resigned for personal reasons, whilst at the same time welcoming our new director, Mr. Kwok Lam Kwong, Larry, who joined the Group in July, 2004. My gratitude also goes to our shareholders, employees, customers and business partners who relentlessly supported and contributed for the well-being of the Group. The Group would not have enhanced its overall growth momentum without the concerted effort from all of the above-mentioned.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2004, the interests or short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (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 as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

Interests in shares and underlying shares of the Company

Director	Note	Number of ordinary shares (long position)					Equity derivatives Note (g)	Total interests	Percentage of total issued shares
		Personal interests	Family interests	Corporate interests	Trusts and similar interests				
Mr. Lo Hoi Kwong, Sunny	(a) & (b)	3,120,000	–	–	88,539,394	1,500,000	93,159,394	17.39%	
Mr. Lo Tak Shing, Peter	(c)	–	–	–	87,626,213	280,000	87,906,213	16.41%	
Mr. Lo Hoi Chun	(d)	132,000	–	–	67,880,834	–	68,012,834	12.70%	
Ms. Lo Pik Ling, Anita	(a)	8,936,339	–	–	51,156,000	400,000	60,492,339	11.29%	
Mr. Chan Yue Kwong, Michael	(a) & (e)	3,621,407	1,189,400	–	51,156,000	1,000,000	56,966,807	10.64%	
Ms. Leung Sau Lai, Kathy (resigned on 1st December, 2004)	–	2,353,000	–	–	–	–	2,353,000	0.44%	
Mr. Li Kwok Sing, Aubrey	(f)	55,000	–	–	–	–	55,000	0.01%	
Mr. Hui Tung Wah, Samuel	–	25,837	–	–	–	–	25,837	0.01%	
Mr. Lo Tang Seong, Victor	–	–	–	–	–	–	–	–	
Mr. Choi Ngai Min, Michael	–	–	–	–	–	–	–	–	
Mr. Kwok Lam Kwong, Larry	–	–	–	–	–	–	–	–	

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Notes:

- (a) 51,156,000 shares were held under a family trust of which Mr. Lo Hoi Kwong, Sunny, Ms. Lo Pik Ling, Anita and the associate of Mr. Chan Yue Kwong, Michael were beneficiaries.
- (b) Mr. Lo Hoi Kwong, Sunny was deemed to be interested in 37,383,394 shares held under a family trust in the capacity of founder.
- (c) These shares were held by Wandels Investment Limited (“Wandels”). Wandels was 50% owned by Sky Bright International Limited (“Sky Bright”) and 50% owned by Verdant Success Holdings Limited (“Verdant Success”). Both of Sky Bright and Verdant Success were wholly-owned subsidiaries of Royal Bank of Canada Trustees Limited which was the trustee of two discretionary family trusts. Mr. Lo Tak Shing, Peter was deemed to be interested by virtue of being beneficiary of one of the family trusts.
- (d) 31,911,701 shares were held under a family trust of which Mr. Lo Hoi Chun and his associates were beneficiaries. 35,969,133 shares were held under a family trust of which Mr. Lo Hoi Chun was the founder and associates of Mr. Lo Hoi Chun were beneficiaries.
- (e) Mr. Chan Yue Kwong, Michael was deemed to be interested in 1,189,400 shares through interests of his associates.
- (f) These shares were held by Mr. Li Kwok Sing, Aubrey jointly with his spouse.
- (g) These represented interests of options granted to Directors under the share option schemes to subscribe for shares of the Company, further details of which are set out in the section “Share Option Schemes”.

All the above interests in the shares and underlying shares of equity derivatives of the Company are long positions.

Save as disclosed above and certain nominee shares in subsidiaries held by certain Directors in trust for the Group, as at 30th September, 2004, none of the Directors, chief executive or their respective associates had any interest or short position in any shares, underlying shares, or debentures of the Company or any of its associated corporations within the meaning of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September, 2004, the interests and short positions of every persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Note	Number of ordinary shares (long position)					Total interests	Percentage of total issued shares
		Personal interests	Family interests	Corporate interests	Trusts and similar interests			
GZ Trust Corporation	(a)	-	-	-	119,036,834	119,036,834	22.22%	
Wandels Investment Limited	(b)	-	-	-	87,626,213	87,626,213	16.36%	
Sky Bright International Limited	(b)	-	-	-	87,626,213	87,626,213	16.36%	
Verdant Success Holdings Limited	(b)	-	-	-	87,626,213	87,626,213	16.36%	
Royal Bank of Canada Trustees Limited	(b)	-	-	-	87,626,213	87,626,213	16.36%	
Ms. Lo Wong Mei Mui	(c)	-	-	-	67,880,834	67,880,834	12.67%	
Mr. Man Tak Wah	(d)	-	60,492,339	-	-	60,492,339	11.29%	
NKY Holding Corporation	(e)	-	-	-	51,156,000	51,156,000	9.55%	
Ms. Tso Po Ping	(f)	-	42,003,394	-	-	42,003,394	7.84%	
Ardley Enterprises Limited	(g)	-	-	-	37,383,394	37,383,394	6.98%	
Ms. Man Bo King	(h)	-	36,101,133	-	-	36,101,133	6.74%	
LBK Holding Corporation	(i)	-	-	-	35,969,133	35,969,133	6.72%	
MMW Holding Corporation	(j)	-	-	-	31,911,701	31,911,701	5.96%	

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(continued)*

Notes:

- (a) GZ Trust Corporation was deemed to be interested in the capacity of trustee.
- (b) These interests were held by Wandels Investment Limited (“Wandels”). Wandels was 50% owned by Sky Bright International Limited (“Sky Bright”) and 50% owned by Verdant Success Holdings Limited (“Verdant Success”). Both of Sky Bright and Verdant Success were wholly-owned subsidiaries of Royal Bank of Canada Trustees Limited which was the trustee of the two discretionary family trusts. Mr. Lo Tak Shing, Peter, being a director of the Company, is also deemed to be interested by virtue of his being beneficiary of one of the family trusts.
- (c) Ms. Lo Wong Mei Mui was deemed to be interested in the capacity of trustee. These interests were the aggregate of the interests disclosed in Notes (i) and (j) below.
- (d) Mr. Man Tak Wah was deemed to be interested through the interests of his spouse, Ms. Lo Pik Ling, Anita (of which 400,000 shares were interests in underlying shares).
- (e) These interests were held by NKY Holding Corporation in the capacity of trustee. These interests represented part of the interests held by GZ Trust Corporation and disclosed in Note (a) above.
- (f) Ms. Tso Po Ping was deemed to be interested in these shares through the interests of her spouse, Mr. Lo Hoi Kwong, Sunny (of which 1,500,000 shares were interests in underlying shares).
- (g) These interests were held by Ardley Enterprises Limited in the capacity of trustee. These interests represented part of the interests of Mr. Lo Hoi Kwong, Sunny, being a director of the Company.
- (h) Ms. Man Bo King was deemed to be interested in these shares through the interests of her spouse, Mr. Lo Hoi Chun.
- (i) These interests were held by LBK Holding Corporation in the capacity of trustee. These interests represented part of the interests held by GZ Trust Corporation and disclosed in Note (a) above.
- (j) These interests were held by MMW Holding Corporation in the capacity of trustee. These interests represented part of the interests held by GZ Trust Corporation and disclosed in Note (a) above.

All interests in the shares and underlying shares of equity derivatives of the Company held by the above persons are long positions.

Save as disclosed above, as at 30th September, 2004, the directors are not aware of any other persons (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares of equity derivatives of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

SHARE OPTION SCHEMES

Pursuant to a share option scheme adopted by the Company on 30th January, 1991 (the “Previous Scheme”), the Company has granted certain options to executives and employees of the Group including executive directors by the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. The Previous Scheme was terminated upon the passing of a shareholders’ resolution for adoption of another share option scheme on 19th September, 2000 (the “Scheme”). Accordingly, no options can be granted under the Previous Scheme as at the date of this report. However, for the outstanding options granted and yet to be exercised under the Previous Scheme, the existing rights of the grantees are not affected. No options had been granted under the Scheme since its adoption.

On 24th September, 2003, the Scheme was terminated upon the passing of a shareholders’ resolution for adoption of a new share option scheme (the “New Scheme”). Pursuant to the New Scheme, the Company may grant options to executive and non-executive directors, employees, suppliers and customers of the Group and consultants, advisors, managers, officers and corporations that provided research, development or other technical support to the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein. No options have been granted under the New Scheme since its adoption.

Details of the share options outstanding as at 30th September, 2004 which have been granted under the Previous Scheme are as follows:

Type of grantees	Note	Options outstanding as at 1st April, 2004	Options exercised during the period	Options lapsed on expiry	Options cancelled as a result of termination of employment	Options outstanding as at 30th September, 2004
Executive Directors						
Mr. Chan Yue Kwong, Michael	(i) & (ii)	1,500,000	500,000	–	–	1,000,000
Mr. Lo Hoi Kwong, Sunny	(i)	1,500,000	–	–	–	1,500,000
Ms. Lo Pik Ling, Anita	(i)	400,000	–	–	–	400,000
Mr. Lo Tak Shing, Peter	(i) & (ii)	350,000	70,000	–	–	280,000
Continuous contract employees	(i) & (iii)	<u>15,890,000</u>	<u>3,840,000</u>	<u>–</u>	<u>180,000</u>	<u>11,870,000</u>
		<u>19,640,000</u>	<u>4,410,000</u>	<u>–</u>	<u>180,000</u>	<u>15,050,000</u>

SHARE OPTION SCHEMES *(continued)*

Notes:

- (i) The share options were granted on 4th November, 1999 and are exercisable at HK\$2.95 per share during the period from 1st April, 2004 to 31st March, 2013.
- (ii) For the category of “Executive Directors”, the weighted average closing price of the Company’s shares immediately before the dates on which the share options were exercised during the period was HK\$8.05.
- (iii) For the category of “Continuous contract employees”, the weighted average closing price of the Company’s shares immediately before the dates on which the share options were exercised during the period was HK\$7.78.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules at any time during the six months ended 30th September, 2004.

AUDIT COMMITTEE

The Company has established an audit committee which currently consists of three independent non-executive directors of the Company with written terms of reference which deal clearly with its authority and duties. Amongst the committee’s principal duties is to review and supervise the Company’s financial reporting process and internal controls (including the review of the unaudited interim financial statements for the six months ended 30th September, 2004).

By order of the Board
Chan Yue Kwong, Michael
Chairman

Hong Kong, 8th December, 2004