



Cosmopolitan International Holdings Limited  
Interim Report 2004

## GROUP RESULTS

The board of directors of Cosmopolitan International Holdings Limited announces the unaudited consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30 September 2004 with comparative figures for the six months ended 30 September 2003 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

	Notes	Unaudited Six months ended 30 September 2004 HK\$'000	Unaudited Six months ended 30 September 2003 HK\$'000
<b>TURNOVER</b>			
Services income		1,099	–
Net results from securities trading		–	(1,729)
Gross rental income from investment properties		–	2,497
		<b>1,099</b>	768
Rental costs		–	(1,791)
<b>GROSS PROFIT/(LOSS)</b>		<b>1,099</b>	(1,023)
Other revenue		327	157
Administrative and operating expenses		(8,257)	(3,630)
Gain on disposal of investment properties		29,497	17,946
Unrealised holding gains on trading securities		3,424	–
Loss on disposal of a subsidiary		–	(116)
<b>PROFIT FROM OPERATIONS</b>		<b>26,090</b>	13,334
Finance costs		(12)	(789)
<b>PROFIT BEFORE TAXATION</b>		<b>26,078</b>	12,545
Income tax expenses	3	–	–
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>26,078</b>	12,545
Minority interests		44	–
<b>NET PROFIT AFTER TAXATION ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>26,122</b>	12,545
<b>DIVIDENDS</b>	4	–	–
<b>EARNINGS PER SHARE</b>			
– Basic	5	4.91 cents	3.69 cents
– Diluted	5	N/A	3.40 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2004

	Notes	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,074	624
Investments properties	6	–	30,800
Goodwill		12,721	14,134
Investments in securities		14,360	14,360
		<b>28,155</b>	59,918
<b>CURRENT ASSETS</b>			
Accounts receivables	7	843	443
Prepayments, deposits and other receivables	8	25,840	8,498
Investments in securities		38,447	21,468
Bank balances and cash		14,476	24,829
		<b>79,606</b>	55,238
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		3,015	4,266
Amounts due to minority shareholders		2,180	1,401
Convertible notes	9	–	7,248
		<b>5,195</b>	12,915
<b>NET CURRENT ASSETS</b>		<b>74,411</b>	42,323
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>102,566</b>	102,241
<b>NON-CURRENT LIABILITIES</b>			
Government lease regrant premium		38	38
		<b>102,528</b>	102,203
<b>MINORITY INTERESTS</b>		<b>151</b>	195
<b>NET ASSETS</b>		<b>102,377</b>	102,008
<b>CAPITAL AND RESERVES</b>			
Share capital	10	532	532
Reserves		101,845	101,476
		<b>102,377</b>	102,008

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	Issued capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2004 (Audited)	532	-	209	28,309	384	25,753	26,801	20,020	102,008
Realisation of revaluation reserves on disposal of investment properties	-	-	-	-	-	(25,753)	-	-	(25,753)
Profit for the period	-	-	-	-	-	-	-	26,122	26,122
At 30 September 2004 (Unaudited)	<u>532</u>	<u>-</u>	<u>209</u>	<u>28,309</u>	<u>384</u>	<u>-</u>	<u>26,801</u>	<u>46,142</u>	<u>102,377</u>
At 1 April 2003 (Audited)	29,416	37,710	209	28,309	384	79,231	26,801	(132,091)	69,969
Realised on disposal of a subsidiary	-	-	-	-	116	-	-	-	116
Realisation of revaluation reserves on disposal of investment properties	-	-	-	-	-	(18,260)	-	-	(18,260)
Profit for the period	-	-	-	-	-	-	-	12,545	12,545
Issue of shares	23,794	9,355	-	-	-	-	-	-	33,149
Shares issue expenses	-	(294)	-	-	-	-	-	-	(294)
At 30 September 2003 (Unaudited)	<u>53,210</u>	<u>46,771</u>	<u>209</u>	<u>28,309</u>	<u>500</u>	<u>60,971</u>	<u>26,801</u>	<u>(119,546)</u>	<u>97,225</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	<b>Unaudited Six months ended 30 September 2004 HK\$'000</b>	Unaudited Six months ended 30 September 2003 HK\$'000
Net cash outflow from operating activities	<b>(17,972)</b>	(14,573)
Net cash inflow from investing activities	<b>14,867</b>	20,371
Net cash (outflow)/inflow from financing activities	<b>(7,248)</b>	22,206
Net (decrease)/increase in cash and cash equivalents	<b>(10,353)</b>	28,004
Cash and cash equivalents at beginning of period	<b>24,829</b>	1,706
Cash and cash equivalents at end of period	<b>14,476</b>	29,710
Analysis of balance of cash and cash equivalents		
Cash and bank balances	<b>14,476</b>	29,710

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The unaudited condensed financial statements have been prepared in accordance with Statement of Standard of Accounting Practice 25 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These interim financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 March 2004.

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for revaluation of investment properties and investment in securities.

The accounting policies adopted in these condensed financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2004.

### 2. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

#### **Business segments**

The Group comprises the following main business segments:

- (a) the information technology segment provides high-speed wireless Internet access technology and property management system solutions;
- (b) the securities trading segment invests in equity securities listed on global stock markets; and
- (c) the property investment segment invests in residential units and office space for their rental income potential.

## 2. SEGMENT INFORMATION (Continued)

	Information Technology		Securities Trading		Property Investment		Consolidated	
	Unaudited		Unaudited		Unaudited		Unaudited	
	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30
	September	September	September	September	September	September	September	September
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue	1,099	-	-	(1,729)	-	2,497	1,099	768
Gain on disposals of investment properties	-	-	-	-	29,497	17,946	29,497	17,946
Unrealised holding gains on listed securities	-	-	3,424	-	-	-	3,424	-
Allocated expenses	(2,088)	-	-	-	(948)	(1,791)	(3,036)	(1,791)
Segment results	(989)	-	3,424	(1,729)	28,549	18,652	30,984	16,923
Other revenue							327	157
Unallocated expenses							(5,221)	(3,746)
Profit from operations							26,090	13,334
Finance costs							(12)	(789)
Profit before taxation							26,078	12,545
Income tax expense							-	-
Profit before minority interests							26,078	12,545
Minority interests							44	-
Net profit attributable to shareholders							26,122	12,545

### Geographical Segments

	Hong Kong		The People's Republic of China (excluding Hong Kong)		Consolidated	
	Unaudited		Unaudited		Unaudited	
	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30	Six months ended 30
	September	September	September	September	September	September
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	-	768	1,099	-	1,099	768
Segment results	27,042	12,545	(964)	-	26,078	12,545

### 3. INCOME TAX EXPENSE

No tax is payable on the profit for the period arising in Hong Kong since the assessable profits is wholly absorbed by tax losses brought forward. No overseas profits tax has been provided in the financial statements since the subsidiaries operating in overseas countries have no profits subjected to tax for both periods.

The Group had no material unprovided deferred tax liabilities at the end of the period.

### 4. DIVIDENDS

The directors did not recommend any payment of interim dividend (six months ended 30 September 2003: Nil) for the period ended 30 September 2004.

### 5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$26,122,000 (six months ended 30 September 2003: HK\$12,545,000) and on the weighted average number of 532,100,000 ordinary shares (six months ended 30 September 2003: 340,145,817 shares) in issue during the six months ended 30 September 2004.

No diluted earnings per share is presented for the six months period ended 30 September 2004 as there had been no potential dilutive share. Diluted earnings per share for the six months period ended 30 September 2003 was based on the weighted average of 369,136,937 ordinary shares.

### 6. INVESTMENT PROPERTIES

During the period under review, the Group disposed of all of its investment properties and resulted in a gain of HK\$29,497,000.

### 7. ACCOUNTS RECEIVABLES

The Group grants an average credit period of 30 to 60 days to its trade customers.

The following is an aged analysis of accounts receivables at the balance sheet date:

	<b>Unaudited</b>	Audited
	<b>30 September 2004</b>	31 March 2004
	<b>HK\$'000</b>	HK\$'000
< 30 days	<b>177</b>	171
31 – 60 days	<b>392</b>	199
61 – 120 days	<b>129</b>	73
> 120 days	<b>145</b>	–
	<b>843</b>	443



## 8. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance of prepayments, deposits and other receivables is a deposit of HK\$19,110,000 paid for the acquisition of the entire equity interest in Faithhouse Company Limited (Please refer to the circular of the Company dated 18 October 2004 for details).

## 9. CONVERTIBLE NOTES

During the period under review, the Group repaid the convertible notes in full upon maturity.

## 10. SHARE CAPITAL

During the period under review, there was no movement in share capital.

## 11. OPERATING LEASE

At the balance sheet date, the Group had commitment for future minimum lease payments under a non-cancellable operating lease which fall due as follows:

	<b>Unaudited</b>	Audited
	<b>30 September 2004</b>	31 March 2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<u>26</u>	<u>105</u>

Operating lease payments represent rentals payable by the Group for its office premises. The lease was negotiated for a term of one year and with fixed rentals.

## 12. CONTINGENT LIABILITIES

Save as disclosed in the annual financial statements for the year ended 31 March 2004, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 13. COMPARATIVE FIGURES

Certain of the comparative figures in the section under segment information have been reclassified in order to give a more appropriate presentation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

The Group's unaudited consolidated net profit for the six months ended 30 September 2004 amounted to approximately HK\$26,122,000 (six months ended 30 September 2003: approximately HK\$12,545,000). The profit was mainly contributed by the gain on disposal of investment properties of approximately HK\$29,497,000. The earning per share for the period stood at 4.91 HK cents compared with 3.69 HK cents for the corresponding period in last year.

## INTERIM DIVIDEND

The board of directors did not recommend any payment of interim dividend (six months ended 30 September 2003: NIL per share) for the period ended 30 September 2004.

## REVIEW OF OPERATIONS

The principal activities of the Group continue to be the holding of property investments and securities trading. Looking forward, the management intends to diversify the Group's business so as to obtain a balance between steady income stream and capital appreciation opportunities.

### Property Investment

The recovery of the property market in Hong Kong continued its momentum from the first quarter of 2004 into the second and third quarters of 2004. During the period under review, the Group had disposed of the non-core properties. Such strategic move enables the Group to further strengthen its cashflow for future acquisition and expansion into the premium property market when opportunity arises. The Group is currently evaluating the investment potential of certain property projects in both Hong Kong and the PRC.

On 24 September 2004, a wholly owned subsidiary of the Group entered into a sale and purchase agreement to acquire the entire issued share capital of a company which major asset is a piece of land in Hong Kong at a consideration of US\$2,700,000 (equivalent to HK\$21,060,000). A down payment of US\$2,450,000 (equivalent to HK\$19,110,000) has been paid and the balance

of the consideration amounted to US\$250,000 (equivalent to HK\$1,950,000) will be settled upon completion of the acquisition. The directors considered that the terms of the acquisition are fair and reasonable and in the interest of the Group and the shareholders of the Company as a whole since it will strengthen the land reserve for future development of the Group's property division. For details, please refer to the circular of discloseable transaction dated 18 October 2004.

### **Securities Investment**

The Group has made certain securities investments in both listed and unlisted companies in Hong Kong and overseas in order to capitalise on the recovery of these economies in general. The Group increased its investment portfolio from HK\$21.47 million to HK\$38.45 million.

### **Investment In Information Technology**

Power2Roam, the Group's vehicle in information technology, has made significant progress and yielded positive result during the period under review. In September 2004, Power2Roam set up a subsidiary in Beijing in order to further enhance its market share and expand its geographical coverage. Power2Roam's comprehensive point-of-service network, prompt response and quality services in Shanghai have helped it to secure numerous new contracts successfully. Power2Roam has become one of the fastest growing wireless high-speed Internet access solution service providers in Shanghai.

### **General**

There were no material acquisitions and disposals of subsidiaries and associated companies in the period under review save as disclosed above.

The Group's exposure to fluctuation in exchange rates was minor and immaterial.

As at 30 September 2004, there was no charge on the assets of the Group.

## **LIQUIDITY AND FINANCING**

The Group generally financed its operations through internally generated funds.

The Group's operating activities resulted in net cash outflow of HK\$17,972,000 (six months ended 30 September 2003: net cash outflow of HK\$14,573,000). The major Group's cash inflow during the period resulted from the net cash inflow from investing activities of HK\$14,867,000 which was mainly derived from the proceeds on disposal of investment properties.

## **CAPITAL STRUCTURE**

The Group fully redeemed its convertible notes during the period and had no outstanding borrowings as at 30 September 2004.

As at 30 September 2004, consolidated shareholders' equity reached HK\$102,377,000 (30 September 2003: HK\$97,225,000) and the Group's debt to equity ratio was zero times (30 September 2003: 0.59 times). Debt to equity ratio is calculated as total borrowings divided by total shareholders equity.

## **HUMAN RESOURCES**

As at 30 September 2004, the Group had 2 executive directors and 3 independent non-executive directors and 15 other full time employees in Shanghai. The Group adopted a share option scheme whereby options to acquire shares of the Company may be granted, among the others, to its directors and employees.

## **SHARE OPTION SCHEME**

On 20 August 2003, the Company adopted a share option scheme ("Share Option Scheme") in accordance with Chapter 17 of the Listing Rules. At as the date of this report, no share options have been offered and/or granted to any participants under the Share Option Scheme.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

## **DIRECTOR'S SERVICE CONTRACTS**

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

## **DIRECTOR'S INTERESTS IN CONTRACTS**

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 30 September 2004 or at any time during the six months ended 30 September 2004.

## **DIRECTOR'S INTERESTS IN SHARES**

According to the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), as at 30 September 2004, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in SFO.

## **ARRANGEMENT TO PURCHASE SHARES OF DEBENTURES**

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, 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.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 September 2004, so far as being known to the directors, the following parties (other than a director or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested in 5% or more of the issued share capital of the Company:

Name	Number of shares held	Percentage of the Company's share capital
Gold Capital Investments Limited ( <i>Note 1</i> )	154,146,092	28.97%
Eric Edward Hotung, C.B.E. ( <i>Note 2</i> )	29,952,608	5.63%
Hotung Investment (China) Limited ( <i>Notes 2 and 3</i> )	16,171,000	3.04%
Genesee Company Limited ( <i>Note 2</i> )	15,161,000	2.85%
Hotung Enterprises Limited ( <i>Note 3</i> )	1,000,000	0.19%
GR Investment International Limited	52,777,026	9.92%
Kenfair International (Holdings) Limited ( <i>Note 4</i> )	92,800,000	17.44%

*Note 1:* Mr. Ma Ching Chung, Robert is deemed to be interested in 154,146,092 shares held by Gold Capital Investments Limited, which is beneficially owned by City Leader International Limited, which is beneficially owned as to 100% by Mr. Ma.

*Note 2:* Hotung Investment (China) Limited and Genesee Company Limited are considered as concert parties of Eric Edward Hotung, C.B.E. as the acquisition of the shares by each of these companies were financed by Eric Edward Hotung, C.B.E..

*Note 3:* In addition to the 1,000,000 shares which are beneficially owned by Hotung Enterprises Limited, Hotung Enterprises Limited is also deemed to be interested in the 16,171,000 shares held by Hotung Investment (China) Limited as 93.75% shareholding in Hotung Investment (China) Limited is controlled by Hotung Enterprises Limited.

*Note 4:* Kenfair International (Holdings) Limited is deemed to be interested in 92,800,000 shares in the issued capital held by Kenfair Publications Limited. Kenfair Publications Limited is wholly-owned by Pro-Capital Investments Limited and Pro-Capital Investments is wholly-owned by Kenfair International (Holdings) Limited. Mr. Ip Ki Cheung is beneficially interested in 50% of the entire issued share capital of Capital Concord Profits Limited which has 50.05% shareholding in Kenfair International (Holdings) Limited. Kenfair International (Holdings) Limited is a company whose shares are listed on the Stock Exchange.

Other than as disclosed above, the Company had not been notified of any other interest representing 5% or more of the Company's shares and underlying shares as at 30 September 2004.

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

The Company has complied throughout the period ended 30 September 2004 with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules.

## **AUDIT COMMITTEE**

The Company has an audit committee (“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 unaudited results of the Group for the six months ended 30 September 2004 have been reviewed by the Audit Committee.

## **PROSPECTS**

Despite the optimistic sentiments in both the property and stock markets, and the positive economic outlook of Hong Kong as a whole, there are however not without uncertainties. As a result of the continuing devaluation of the US dollars and the historical high oil price, inflation is around the corner. Unemployment rate has stopped escalating but still maintained at high level. Interest rate is believed to be on the rising path. In view of these factors, the Group will continue to adopt a prudent approach for the rest of the year to identify suitable property investment in order to expand our property portfolio. Looking ahead, the management will also continue to exploring investment opportunities that have steady income and positive cashflow so as to further improve the Group’s financial performance and broaden its earning bases.

By order of the Board

**MAK WAI FONG**

*Executive Director*

Hong Kong, 21 December 2004