



**KIN YAT HOLDINGS LIMITED**

**建溢集團有限公司**

(Incorporated in Bermuda with limited liability)



2004  
Interim Report

The Board of Directors is pleased to announce the unaudited consolidated results for Kin Yat Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2004 together with the comparative figures for the corresponding period in 2003 as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30 September	
		2004	2003
	Notes	HK\$'000	HK\$'000
<b>TURNOVER</b>	2	<b>406,591</b>	395,468
Cost of sales		<b>(347,581)</b>	(308,481)
Gross profit		<b>59,010</b>	86,987
Other revenue		<b>4,807</b>	4,343
Selling and distribution expenses		<b>(10,753)</b>	(11,295)
Administrative expenses		<b>(32,145)</b>	(34,253)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	3	<b>20,919</b>	45,782
Finance costs		<b>(298)</b>	(132)
<b>PROFIT AFTER FINANCE COSTS</b>		<b>20,621</b>	45,650
Share of profits less losses of associates		<b>(2,291)</b>	3,548
<b>PROFIT BEFORE TAX</b>		<b>18,330</b>	49,198
Tax	4	<b>(2,834)</b>	(3,767)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>15,496</b>	45,431
Minority interests		<b>(2,871)</b>	(3,026)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>12,625</b>	42,405
<b>DIVIDENDS</b>	5	<b>2,024</b>	8,096
<b>EARNINGS PER SHARE</b>	6		
Basic		<b>HK3.12 cents</b>	HK10.48 cents
Diluted		<b>HK3.11 cents</b>	HK10.44 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

		Unaudited 30 September 2004 <i>HK\$'000</i>	Audited 31 March 2004 <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		350,542	345,014
Goodwill		5,814	6,976
Interests in associates		19,631	22,404
Deferred development costs		9,004	8,720
		<hr/> 384,991	<hr/> 383,114
<b>CURRENT ASSETS</b>			
Inventories		173,490	137,314
Accounts receivable	7	154,058	53,597
Prepayments, deposits and other receivables		27,626	20,348
Time deposits		23,016	25,152
Cash and bank balances		31,076	37,435
		<hr/> 409,266	<hr/> 273,846
<b>CURRENT LIABILITIES</b>			
Accounts and bills payable, accrued liabilities and other payables	8	192,182	93,087
Interest-bearing bank borrowings	9	35,321	18,371
Tax payable		9,248	7,611
Proposed interim dividend		2,024	–
		<hr/> 238,775	<hr/> 119,069
<b>NET CURRENT ASSETS</b>		<hr/> 170,491	<hr/> 154,777
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/> 555,482	<hr/> 537,891

		<b>Unaudited</b> <b>30 September</b> <b>2004</b> <i>HK\$'000</i>	Audited 31 March 2004 <i>HK\$'000</i>
	<i>Notes</i>		
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>555,482</b>	537,891
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	9	<b>22,500</b>	13,333
Deferred tax liabilities		<b>13,841</b>	13,841
		<u><b>36,341</b></u>	<u>27,174</u>
<b>MINORITY INTERESTS</b>		<b>14,290</b>	12,419
		<u><b>504,851</b></u>	<u>498,298</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	10	<b>40,482</b>	40,482
Reserves		<b>464,369</b>	453,768
Proposed final dividend		–	4,048
		<u><b>504,851</b></u>	<u>498,298</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004 (Unaudited)

	Reserves							Proposed final dividend	Total
	Share capital	Share premium account	Asset revaluation reserve	Capital reserve on consolidation	Contributed surplus	Retained profits	Total reserves		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 April 2004	40,482	104,441	28,409	1,599	6,150	313,169	453,768	4,048	498,298
2003/2004 final dividend declared	-	-	-	-	-	-	-	(4,048)	(4,048)
Net profit for the period	-	-	-	-	-	12,625	12,625	-	12,625
Interim dividend	-	-	-	-	-	(2,024)	(2,024)	-	(2,024)
At 30 September 2004	<u>40,482</u>	<u>104,441</u>	<u>28,409</u>	<u>1,599</u>	<u>6,150</u>	<u>323,770</u>	<u>464,369</u>	-	<u>504,851</u>

## For the six months ended 30 September 2003 (Unaudited)

	Reserves							Proposed final dividend	Total
	Share capital	Share premium account	Asset revaluation reserve	Capital reserve on consolidation	Contributed surplus	Retained profits	Total reserves		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 April 2003	40,482	104,441	45,938	1,599	6,150	300,481	458,609	20,241	519,332
2002/2003 final dividend declared	-	-	-	-	-	-	-	(20,241)	(20,241)
Net profit for the period	-	-	-	-	-	42,405	42,405	-	42,405
Interim dividend	-	-	-	-	-	(8,096)	(8,096)	-	(8,096)
At 30 September 2003	<u>40,482</u>	<u>104,441</u>	<u>45,938</u>	<u>1,599</u>	<u>6,150</u>	<u>334,790</u>	<u>492,918</u>	-	<u>533,400</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<b>(4,837)</b>	40,306
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(29,776)</b>	(45,747)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<b>31,494</b>	–
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(3,119)</b>	(5,441)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>55,883</b>	79,450
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>52,764</b>	74,009
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>31,076</b>	45,299
Time deposits with original maturity of less than three months when acquired	<b>23,016</b>	29,149
Bank overdrafts, unsecured	<b>(1,328)</b>	(439)
	<b>52,764</b>	74,009

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

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

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 March 2004.

### 2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts but excluding intra-Group transactions.

#### (a) Business segments

The following table presents revenue and profit for the Group's business segments.

	Unaudited six months ended 30 September											
	Toys and related products		Motors		Electrical household appliances		Material Development		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	238,195	244,238	114,237	115,651	37,997	31,832	16,162	3,747	-	-	406,591	395,468
Inter-segment sales	-	-	5,048	8,529	-	-	-	-	(5,048)	(8,529)	-	-
Other revenue and gain	1,776	1,611	1,728	1,145	-	-	113	56	-	-	3,617	2,812
<b>Total</b>	<b>239,971</b>	<b>245,849</b>	<b>121,013</b>	<b>125,325</b>	<b>37,997</b>	<b>31,832</b>	<b>16,275</b>	<b>3,803</b>	<b>(5,048)</b>	<b>(8,529)</b>	<b>410,208</b>	<b>398,280</b>
Segment results	(5,039)	16,113	26,854	31,138	(616)	662	1,986	621	-	-	23,185	48,534
Interest, dividend income and unallocated gains											1,190	1,531
Unallocated expenses											(3,456)	(4,283)
Profit from operating activities											<b>20,919</b>	<b>45,782</b>

**(b) Geographical segments**

The following table presents the Group's geographical segment revenue.

	Unaudited six months ended 30 September											
	United States of America		Europe		Asia		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	113,497	128,591	120,224	95,946	140,560	129,335	32,310	41,596	-	-	406,591	395,468

**3. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging/(crediting):

	Unaudited Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Depreciation	20,447	17,124
Amortisation of deferred development costs	3,516	3,194
Amortisation of goodwill	1,163	1,163
Interest income	(46)	(232)



#### 4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current period provision:		
Hong Kong	2,444	3,452
Elsewhere	299	252
	<u>2,743</u>	<u>3,704</u>
Share of tax attributable to associates	91	63
	<u>2,834</u>	<u>3,767</u>

There was no significant unprovided deferred tax in respect of the period and as at the balance sheet date (2003: Nil).

#### 5. DIVIDENDS

The directors have decided to pay an interim dividend of HK0.5 cent per share to the shareholders whose name appear on the register of members of the Company on 14 January 2005. The dividend will be paid on 20 January 2005.

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim – HK0.5 cent (2003: HK2 cents) per ordinary share	<u>2,024</u>	<u>8,096</u>

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$12,625,000 (2003: HK\$42,405,000) and the weighted average of 404,820,000 (2003: 404,820,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$12,625,000 (2003: HK\$42,405,000) and 406,004,138 (2003: 406,226,601) ordinary shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of the dilutive potential ordinary shares outstanding during the period.

A reconciliation of the weighted average number of shares used in calculating basic and diluted earnings per share is as follows:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>404,820,000</b>	404,820,000
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the period	<b>1,184,138</b>	1,406,601
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b><u>406,004,138</u></b>	<u>406,226,601</u>

## 7. ACCOUNTS RECEIVABLE

Trading terms with customers are largely on credit, except for new customers where cash on sale or payment by letter of credit is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, for whom the credit terms are extended to 90 days. The ageing of the Group's accounts receivable as at 30 September 2004 is analysed as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2004</b> <b>HK\$'000</b>	Audited 31 March 2004 HK\$'000
0 – 30 days	<b>87,918</b>	33,472
31 – 60 days	<b>49,798</b>	12,749
61 – 90 days	<b>11,187</b>	2,742
Over 90 days	<b>5,155</b>	4,634
Total	<b>154,058</b>	53,597

The substantial increase in the accounts receivables is owing to the seasonal factor where September (30 September 2003: HK\$142,972,000) is the high season and March (31 March 2003: HK\$70,451,000) is the low season. The Group considered such balances are normal and healthy.

**8. ACCOUNTS AND BILLS PAYABLE, ACCRUED LIABILITIES AND OTHER PAYABLES**

The ageing of the Group's accounts and bills payable as at 30 September 2004 is analysed as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2004</b> <i>HK\$'000</i>	Audited 31 March 2004 <i>HK\$'000</i>
0 – 30 days	<b>68,040</b>	32,562
31 – 60 days	<b>53,511</b>	17,012
61 – 90 days	<b>33,451</b>	4,937
Over 90 days	<b>8,189</b>	10,088
Accounts and bills payable	<b>163,191</b>	64,599
Accrued liabilities and other payables	<b>28,991</b>	28,488
Total	<b>192,182</b>	93,087

**9. INTEREST-BEARING BANK BORROWINGS**

The Group's banking facilities as at 30 September 2004 are supported by corporate guarantees given by the Company and certain subsidiaries of the Company and personal guarantees given by certain minority shareholders of a subsidiary.

**10. SHARE CAPITAL**

	<b>Unaudited</b>	
	<b>Ordinary shares of HK\$0.10 each</b>	
	<b>Number of shares</b>	<i>HK\$'000</i>
Authorised:		
At 1 April 2004 and 30 September 2004	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2004 and 30 September 2004	<u>404,820,000</u>	<u>40,482</u>

**11. CONTINGENT LIABILITIES**

At the balance sheet date, the Company had provided guarantees of HK\$156,000,000 (31 March 2004: HK\$147,000,000) and HK\$35,000,000 (31 March 2004: HK\$35,000,000) in respect of banking facilities granted to certain subsidiaries and associates, of which HK\$57,821,000 (31 March 2004: HK\$31,704,000) and HK\$40,292,000 (31 March 2004: Nil) had been utilised as at the balance sheet date, respectively.

**12. COMPARATIVE AMOUNTS**

Due to the expansion of the Material Development segment, its segment's revenue and profit which previously included in "Toys and Other Products" segment is now disclosed in "Material Development" segment. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 11 January 2005 to Friday, 14 January 2005 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 September 2004, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 10 January 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

The past six months continued to be a very difficult one for the toys industry. Mounting competition, sustaining pricing pressure, higher material costs and shortages in power and labor were the challenges that the Group had been facing. In addition to implementing restructuring measures to enhance competitiveness and exploring diversification opportunities of potential, the Group made a strategic move to invest in the development of materials to expand its income sources.

More efforts will be devoted into strengthening this business segment and enhancing the fundamentals of the existing divisions to achieve better performances in the second half.

## REVIEW OF OPERATIONS

### Toys

The operating environment continued to be tough and challenging. Higher cost was an important concern for the toys division. Metal prices continued to rise, and the soaring petroleum prices during the period also drove up material costs in plastics and other petrochemicals. However, the Group was unable to pass the additional costs to customers as competition was very keen.

Shortage of electricity supply also caused interruption to production activities. Although the Group is equipped with its own power generator, the rocketing fuel cost has made such contingency measure very cost inefficient compared with public supply. In addition, labor supply continued to be tight and overtime work was common, resulting in delivery delays and higher costs.

Such difficult market conditions affected the division's profitability. Loss was incurred despite a stable turnover during the period.

Looking forward to the second half of the year, the toys division will continue to focus on low to mid-priced items. It has secured orders for certain movie related items with bulk volume, allowing greater benefits from the scale of economy. As the industry enters its traditional low season, labor supply will be more abundant but electricity shortage will remain a concern.

The division is now going through a strategic restructuring plan to enhance competitiveness, including a restructuring of the supporting workforce, review of staff benefits, streamlining of departments and more active sub-contracting activities. The division is cautiously optimistic of an improved performance in the second half of the year.

## **Motors**

The Group's motors division continued to derive the majority of its business activities from the toys sector at this stage. The unfavorable market conditions and cut-throat price competition of the toys sector had a material impact on the performance of this motor division.

The substantial cost hikes in copper, steel and other materials wiped out part of the division's profit margin, as only a fraction of the additional costs could be passed on to the customers so as to remain competitive.

The outcome of previous efforts to diversify into other product segments fell short of anticipation. In view of persistent labor shortage and higher electricity cost, further diversification initiatives were deferred until the market environment is more supportive.

As a result, the division experienced a slight decrease in turnover, but a more optimum product mix helped generate a slight improvement in profit margin. The division will continue to identify niche segments and products to build future growth momentum for future growth.

During the period under review, the division secured the ISO/TS16949 certification which is a pre-requisite for selling motors for automobiles. This will signify a new phase of active development of the automobile line.

## Material development

The Group made a strategic decision last year to invest \$20 million to launch a new business segment that is less susceptible to the cyclical nature of the consumer market.

The development of materials primarily for use in Cathode Ray Tube, Plasma and Liquid Crystal Display has every potential of becoming a strong income stream for the Group. Despite its infant development stage, the segment produced a profit of around HK\$2 million during the period, which is within the Group's expectation. More efforts will be devoted to strengthen this segment of substantial potential.

## CDRs

The performance of the Group's 50%-owned CDR manufacturing arm was affected by the unstable supply of electricity and very fierce competition with more newcomers entering into this market.

The outlook for the second half continues to be difficult but as weaker competitors begin to fade out, the division's strong competitive capabilities will buoy its long-term profitability.

## Prospects

Although fuel prices have come down slightly, shortages of labor and electricity in the mainland will continue to inhibit the Group's production activities and expansion initiatives. The cut-throat price war shows no signs of subsiding as competition continues to be tough and overall cost structures of most manufacturers are lowered. The operating environment for the Group will remain challenging for the remainder of the financial year.

However, the Group will further step up its efforts to enhance operating efficiency, build up economy of scale, strengthen marketing and improve profitability. With our production capabilities, product excellence and industry expertise, we believe the Group is able to manage the tough market situation and strive for a brighter future.



## LIQUIDITY AND FINANCIAL POSITION

The Group primarily used its internally generated cash flow and banking facilities to finance its operations and business development during the period. The Group adopts a prudent and conservative policy in its financial management. At the end of the financial period, the Group's aggregated time deposits and cash and bank balances amounted to HK\$54 million (31 March 2004: HK\$63 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK\$156 million (31 March 2004: HK\$147 million) with various banks, of which HK\$58 million (31 March 2004: HK\$32 million) has been utilized as at 30 September 2004.

The Group continues to enjoy healthy financial position. As at 30 September 2004, the current ratio (current assets divided by current liabilities) was 1.7 times (31 March 2004: 2.3 times) and the gearing ratio (long term liabilities divided by shareholder funds) was 7.2% (31 March 2004: 5.5%).

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2004, the Group employed over 11,000 full time employees, of which approximately 60 were based in Hong Kong with the remainder in China.

The Group remunerates its employees largely in accordance with prevailing industry standards. In Hong Kong, the Group's employee benefits include staff retirement scheme, medical scheme and performance bonus. In China, the Group provides its employees staff welfare and allowances in accordance with prevailing labour law. The Group has also put in place a share option scheme to motivate and reward performing staff. At the discretion of the Board of Directors, the Group's employees will be granted options, the amount of which is determined by performance and rank of individual employees.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2004, the interests and short positions of the directors 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 (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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, were as follows:

### (A) Shares

Name of director	Long position/ short position	Capacity	No. of shares	Percentage of the Company's issue share capital
Cheng Chor Kit	Long position	Founder of a trust	265,676,000 <i>(Note)</i>	65.63%
Wong Kin Chung	Long position	Beneficial owner	3,050,000	0.75%

*Note:* These shares, amounting to around 65.63% of the total issued share capital of the Company, are held by Resplendent Global Limited ("Resplendent"), a company incorporated in the British Virgin Islands. Padora Global Inc. ("Padora") and Shannon Global Limited ("Shannon") are the beneficial owners of approximately 95.8% and 4.2%, respectively, of the issued share capital of Resplendent. Padora is a company incorporated in the British Virgin Islands and is wholly-owned by Polo Asset Holdings Limited, which is ultimately owned by the trustees of a discretionary trust established by Cheng Chor Kit for his family. Shannon is a company incorporated in the British Virgin Islands which is owned by Cheng Chor Chiu, Cheng Chor Yip and Cheng Chor Kei, three brothers of Cheng Chor Kit, in the ratios of approximately 57.75%, 21.125% and 21.125%, respectively.

Pursuant to two share transfer agreements dated 25 July 2002 and 2 June 2003 entered into between Shannon, Padora, Cheng Chor Chiu, Cheng Chor Yip, Cheng Chor Kei and Cheng Chor Kit, Shannon agreed to transfer a total of 40.5% of its then total interests in Resplendent to Padora in different phases and the transfers of the total 40.5% interests will complete not later than 2 December 2004. Up to 30 September 2004, Shannon has transferred a total of 36.3% interests in Resplendent to Padora.

Subsequent to the balance sheet date, on 16 November 2004, the transfer of the remaining 4.2% interest in Resplendent from Shannon to Padora was completed pursuant to the aforesaid agreement dated 2 June 2003. Accordingly, the interests of Padora and Shannon in Resplendent have increased to 100% and reduced to 0%, respectively.

## (B) Underlying Shares

Name of director	Long position/ short position	Capacity	No. of share option granted	No. of underlying shares in respect of share option held and approximately percentage of shareholding	Date of shares option granted	Exercise period	Exercise price per share
Cheng Chor Kit	Long position	Beneficial owner	2,000,000	2,000,000 (0.49%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Chan Tak Yin	Long position	Beneficial owner	726,000	726,000 (0.18%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Chui Pak Shing	Long position	Beneficial owner	422,000	422,000 (0.10%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Fan Sau Leung	Long position	Beneficial owner	392,000	392,000 (0.097%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Wong Kin Chung	Long position	Beneficial owner	312,000	312,000 (0.078%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592

Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## SHARE OPTION SCHEME

On 20 August 2002, the share option scheme of the Company adopted on 8 April 1997 ceased to operate and a new share option scheme (the “New Scheme”) was adopted on the same date to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. The options granted under the old scheme will remain in force and effect for the periods set out below (the “Old Scheme”).

The following share options were outstanding under the New Scheme and the Old Scheme during the period:

	Date of share options granted	Number of share options				Exercise period	Exercise price per share HK\$	Price of Company's shares at grant date of options* HK\$
		At 1 April 2004	Granted during the period	Exercised during the period	At 30 September 2004			
<b>The New Scheme</b>								
Directors	14/11/2003	3,852,000	-	-	3,852,000	14/11/2006-13/11/2013	1.592	1.60
Other employees	14/11/2003	1,200,000	-	-	1,200,000	14/11/2006-13/11/2013	1.592	1.60
		<u>5,052,000</u>	<u>-</u>	<u>-</u>	<u>5,052,000</u>			
<b>The Old Scheme</b>								
Other employees	6/11/1998	1,760,000	-	-	1,760,000	6/11/1998-5/11/2008	0.3032	0.44

\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing prices on the trading day immediately prior to the date of the grant of the options.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section headed "Directors' interests and short positions in shares and underlying shares" and "Share option scheme", at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 September 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Cheng Chor Kit ( <i>Note</i> )	Through a controlled corporation	265,676,000	65.63	2,000,000

*Note:* These shares were held through Resplendent.

This shareholding is duplicated in the section headed "Directors' interests and short positions in shares and underlying shares" disclosed above.

The details of the share options outstanding during the period are separately disclosed in the section headed "Share option scheme" disclosed above.

Saved as disclosed above, no person, other than Cheng Chor Kit, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

At 30 September 2004, the Group had advanced a total of HK\$18,223,000 (the "Loan") to Full Summit Development Limited ("Full Summit"), an associate of the Group, and provided a guarantee (the "Guarantee") of HK\$35,000,000 to bank for facilities granted to Full Summit and Concord Modern International Technology Limited ("CMIT"), both are the associates of the Group. The total amount of the Loan and Guarantee of HK\$53,223,000 exceed 8% of one or more of the percentage ratios as set out in Rule 14.04(9) of the Listing Rules, thus giving rise to a disclosure obligation under Rule 13.22 of the Listing Rules. Accordingly, a combine balance sheet of Full Summit and CMIT with major financial assistance from the Group and the Group's attributable interest in these associates are presented below:

	<b>Combined balance sheet</b> <i>HK\$'000</i>
Non-current assets	96,236
Current assets	25,364
Current liabilities	(83,451)
Non-current liabilities	(36,445)
	<hr/>
	1,704
	<hr/> <hr/>
Group's attributable interests	852
	<hr/> <hr/>

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, except that the independent non-executive directors are not appointed for specific terms as required by paragraph 7 of the Code, but subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

## AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) in 1999 in compliance with the requirements of the Code as set out in Appendix 14 of the Listing Rules. The Committee was established with written terms of reference, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises the three independent non-executive directors. The work of the Committee has covered the financial period ended 30 September 2004.

On behalf of the Board

**Cheng Chor Kit**

*Chairman*

Hong Kong, 17 December 2004