

The directors of Alco Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2004, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th September 2004

		Unaudited	
		Six months ended	
		30th September	
		2004	2003
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	2,830,284	1,732,586
Cost of sales		(2,603,420)	(1,572,947)
Gross profit		226,864	159,639
Other revenues		11,598	6,434
Selling expenses		(61,379)	(52,776)
Administrative expenses		(37,251)	(34,964)
Other operating expenses		(3,914)	(2,871)
Operating profit	3	135,918	75,462
Finance costs		(3,492)	(4,030)
Profit before taxation		132,426	71,432
Taxation	4	(18,840)	(9,269)
Profit after taxation		113,586	62,163
Minority interests		(2,288)	(726)
Profit attributable to shareholders		<u>111,298</u>	<u>61,437</u>
Interim dividend	5	<u>27,823</u>	<u>15,856</u>
Basic earnings per share	6	HK20.7 cents	HK11.9 cents
Diluted earnings per share	6	HK20.2 cents	HK11.4 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2004

		Unaudited 30th September 2004 HK\$'000	Unaudited 30th September 2003 HK\$'000	Audited 31st March 2004 HK\$'000
	<i>Notes</i>			
Fixed assets	7	466,367	467,202	427,523
Deferred development costs	7	22,844	25,443	16,398
Investment in security		39,341	40,365	39,682
Other investments		–	2,034	–
Long-term bank deposits		119,200	–	119,200
Current assets				
Inventories		1,141,754	695,025	596,828
Trade receivables	8	818,272	663,093	333,321
Other receivables, prepayments and deposits		20,831	19,959	18,560
Bank balances and cash		498,587	394,608	466,679
		2,479,444	1,772,685	1,415,388
Current liabilities				
Trade payables	9	861,531	708,575	458,555
Other payables and accrued charges		194,163	148,826	128,945
Taxation payable		28,046	15,261	13,607
Trust receipt loans		629,524	199,532	152,638
Obligations under finance leases	10	1,217	4,036	2,813
Bank loans – current portion	11	92,857	69,643	57,143
		1,807,338	1,145,873	813,701
Net current assets		672,106	626,812	601,687
Total assets less current liabilities		1,319,858	1,161,856	1,204,490
Financed by:				
Share capital	12	55,645	52,852	53,292
Reserves		1,118,629	973,552	1,048,011
Shareholders' funds		1,174,274	1,026,404	1,101,303
Minority interests		20,492	19,835	19,204
Obligations under finance leases	10	–	1,221	206
Bank loans – long-term portion	11	91,200	82,857	54,286
Deferred taxation		33,892	31,539	29,491
		1,319,858	1,161,856	1,204,490

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2004

	Unaudited	
	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
Net cash used in operating activities	(454,111)	(137,550)
Net cash used in investing activities	(12,983)	(102,247)
Net cash inflow from financing activities	138,064	44,744
Decrease in cash and cash equivalents	(329,030)	(195,053)
Cash and cash equivalents at beginning of period	242,272	344,934
Cash and cash equivalents at end of period	(86,758)	149,881
Analysis of balances of cash and cash equivalents		
Bank balances and cash	498,587	394,608
Less: Bank balances with maturity more than three months	–	(64,600)
Trust receipt loans repayable within three months	(585,345)	(180,127)
	(86,758)	149,881

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2004

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share redemption reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	
At 1st April 2004	53,292	229,137	471	(3,168)	821,571	1,101,303
Exercise of bonus warrants	2,353	20,706	-	-	-	23,059
Translation difference	-	-	-	(178)	-	(178)
Dividends	-	-	-	-	(61,208)	(61,208)
Net profit for the period	-	-	-	-	111,298	111,298
At 30th September 2004	<u>55,645</u>	<u>249,843</u>	<u>471</u>	<u>(3,346)</u>	<u>871,661</u>	<u>1,174,274</u>
Representing:						
Share capital						55,645
Reserves						1,090,806
Proposed interim dividend						27,823
						<u>1,174,274</u>
At 1st April 2003, as previously reported	51,138	210,182	471	281	754,331	1,016,403
Change in accounting policy – provision for net deferred tax liabilities	-	-	-	-	(8,078)	(8,078)
Exercise of bonus warrants	1,714	15,080	-	-	-	16,794
Translation difference	-	-	-	(2,082)	-	(2,082)
Dividends	-	-	-	-	(58,070)	(58,070)
Net profit for the period	-	-	-	-	61,437	61,437
At 30th September 2003	<u>52,852</u>	<u>225,262</u>	<u>471</u>	<u>(1,801)</u>	<u>749,620</u>	<u>1,026,404</u>
Representing:						
Share capital						52,852
Reserves						957,696
Proposed interim dividend						15,856
						<u>1,026,404</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September 2004

1. Basis of preparation and principal accounting policies

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

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

2. Segment information

The Group is principally engaged in the design, manufacture and sale of consumer audio-visual, telecommunication and plastic products.

(a) Business segment

The Group mainly operates in the People’s Republic of China (the “PRC”) and Hong Kong in two main business segments:

Consumer electronic products – Design, manufacture and sale of consumer audio-visual and telecommunication products

Plastic products – Manufacture and sale of plastic and packing products

	Six months ended 30th September				2003			
	2004		2003		2004		2003	
	Consumer electronic products	Plastic products	Elimination	Group	Consumer electronic products	Plastic products	Elimination	Group
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
External sales	2,823,006	7,278	-	2,830,284	1,714,060	18,526	-	1,732,586
Inter-segment sales	-	123,643	(123,643)	-	-	153,718	(153,718)	-
	<u>2,823,006</u>	<u>130,921</u>	<u>(123,643)</u>	<u>2,830,284</u>	<u>1,714,060</u>	<u>172,244</u>	<u>(153,718)</u>	<u>1,732,586</u>
Segment results	<u>135,234</u>	<u>684</u>		<u>135,918</u>	<u>74,972</u>	<u>490</u>		<u>75,462</u>

2. Segment information (continued)

(b) Geographical segment

	Turnover	
	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
North America	1,753,041	1,137,700
Europe	778,242	372,332
Asia	246,606	189,252
Australia and New Zealand	21,266	10,481
South America	19,372	3,606
Africa	11,757	19,215
	<u>2,830,284</u>	<u>1,732,586</u>

The analysis of turnover by geographical segment is based on the destination to which the shipments are made. No analysis of the contribution by geographical segment has been presented as the ratios of profit to turnover achieved for the above geographical segments are not substantially out of line with the Group's overall ratio of profit to turnover.

3. Operating profit

Operating profit is stated after (crediting)/charging the following:

	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
Interest income	(7,417)	(4,661)
Amortisation of deferred development costs	5,011	7,142
Depreciation	33,749	36,819
Staff costs	<u>133,035</u>	<u>128,242</u>

4. Taxation

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.

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

	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
Company and subsidiaries		
Hong Kong profits tax	14,439	8,670
Deferred taxation	4,401	599
	<hr/>	<hr/>
	18,840	9,269
	<hr/> <hr/>	<hr/> <hr/>

There was no share of taxation attributable to a jointly controlled entity for the six months ended 30th September 2004 (2003: nil). No overseas taxation has been provided as the Group's subsidiaries in Canada and the PRC have no estimated assessable profits for the six months ended 30th September 2004 (2003: nil).

5. Interim dividend

At a meeting held on 20th December 2004, the directors declared an interim dividend of HK5.0 cents (2003: HK3.0 cents) per share for the six months ended 30th September 2004, amounting to HK\$27,823,000 (2003: HK\$15,856,000).

6. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders for the six months ended 30th September 2004 of HK\$111,298,000 (2003: HK\$61,437,000). The basic earnings per share is based on the weighted average of 538,299,020 (2003: 515,999,575) ordinary shares in issue during the period.

The diluted earnings per share is based on 551,904,387 (2003: 539,827,130) ordinary shares which is the aggregate of the weighted average number of ordinary shares in issue during the period and the weighted average of 13,605,367 (2003: 23,827,555) ordinary shares deemed to be issued at no consideration if all bonus warrants had been exercised.

7. Capital expenditure

	30th September 2004	
	Fixed assets	Deferred development costs
	HK\$'000	HK\$'000
Opening net book value	427,523	16,398
Additions	74,479	11,457
Disposals	(1,886)	–
Depreciation/Amortisation	(33,749)	(5,011)
Closing net book value	<u>466,367</u>	<u>22,844</u>

8. Trade receivables

An ageing analysis of trade receivables based on invoiced date as at 30th September 2004 is as follows:

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
0 – 30 days	621,972	227,222
31 – 60 days	115,245	90,641
61 – 90 days	70,898	7,639
Over 90 days	10,157	7,819
	<u>818,272</u>	<u>333,321</u>

The credit terms given vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

9. Trade payables

An ageing analysis of trade payables based on suppliers' invoice date as at 30th September 2004 is as follows:

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
0 – 30 days	639,715	307,447
31 – 60 days	146,420	117,940
61 – 90 days	70,802	27,182
Over 90 days	4,594	5,986
	<u>861,531</u>	<u>458,555</u>

10. Obligations under finance leases

As at 30th September 2004, the Group's finance lease liabilities were payable as follows:

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
Within one year	1,226	2,838
In the second year	—	207
	<u>1,226</u>	<u>3,045</u>
Future finance charges on finance leases	(9)	(26)
Present value of finance lease liabilities	<u><u>1,217</u></u>	<u><u>3,019</u></u>

The present value of finance lease liabilities is as follows:

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
Within one year	1,217	2,813
In the second year	—	206
Present value of finance lease liabilities	<u><u>1,217</u></u>	<u><u>3,019</u></u>

11. Bank loans

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
Bank loans – unsecured (<i>note</i>)	<u><u>184,057</u></u>	<u><u>111,429</u></u>

The above bank loans are repayable in the following periods:

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
Within one year	92,857	57,143
In the second year	40,000	34,286
In the third to fifth year	51,200	20,000
	<u><u>184,057</u></u>	<u><u>111,429</u></u>

Note:

The unsecured bank loans are supported by corporate guarantees given by the Company.

12. Share capital

	Company	
	Number of shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
Brought forward and carried forward	800,000,000	80,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April 2004	532,923,488	53,292
Exercise of bonus warrants	23,529,600	2,353
At 30th September 2004	556,453,088	55,645
At 1st April 2003	511,382,734	51,138
Exercise of bonus warrants	17,136,934	1,714
At 30th September 2003	528,519,668	52,852

During the six months ended 30th September 2004, 23,529,600 (2003: 17,136,934) ordinary shares of HK\$0.10 each of the Company were issued at a subscription price of HK\$0.98 per share to bonus warrant holders on the exercise of their bonus warrants for a total cash consideration of HK\$23,059,008 (2003: HK\$16,794,195).

Details of the movement and outstanding bonus warrants as at 30th September 2004 are as follows:

Subscription price per share	Number of bonus warrants outstanding as at 1st April 2004	Number of bonus warrants exercised during the period	Number of bonus warrants outstanding as at 30th September 2004
HK\$0.98	29,596,551	23,529,600	6,066,951

13. Contingent liabilities

	Group		Company	
	30th September 2004 <i>HK\$'000</i>	31st March 2004 <i>HK\$'000</i>	30th September 2004 <i>HK\$'000</i>	31st March 2004 <i>HK\$'000</i>
Bills discounted with recourse to banks	265,521	–	–	–
Corporate guarantees given to banks in respect of utilised banking facilities	–	–	813,581	264,067
	<u>265,521</u>	<u>–</u>	<u>813,581</u>	<u>264,067</u>

14. Commitments

(a) Operating lease commitments

As at 30th September 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30th September 2004 <i>HK\$'000</i>	31st March 2004 <i>HK\$'000</i>
Not later than one year	33,097	34,987
Later than one year and not later than five years	50,850	65,378
Later than five years	20,841	22,405
	<u>104,788</u>	<u>122,770</u>

(b) Capital commitments

	30th September 2004 <i>HK\$'000</i>	31st March 2004 <i>HK\$'000</i>
Contracted but not provided for in respect of moulds, plant and machinery	2,269	1,690

15. Future operating lease arrangements

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

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
Not later than one year	2,564	1,506
Later than one year and not later than five years	1,217	358
	<u>3,781</u>	<u>1,864</u>

16. Subsequent event

On 18th October 2004, Alco Investments (B.V.I.) Limited ("Alco Investments"), a wholly-owned subsidiary of the Company, acquired 6,000 shares, representing 20% of the issued share capital of, Alco Plastic Products Limited ("Alco Plastic") for a cash consideration of HK\$15,500,000 from Mr. LAU Kwok Wai, a director of Alco Plastic. Upon completion, the percentage shareholding of Alco Investments in Alco Plastic increased from 80% to 100%.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results

For the six months ended 30th September 2004, the Group recorded a turnover of HK\$2.83 billion, representing an increase of 63% compared with HK\$1.73 billion of the corresponding period last year. The increase stemmed from positive market response to the Group's TFT-LCD related products, driven by the Group switching its focus to high value and sophisticated audio-visual products.

During the period, keen competition and prices of raw materials and other components, in particular plastic resin and memory integrated circuits, increased significantly which, to certain extent, affected the margin of the Group's business. During the period, the Group's overall gross profit margin was recorded at 8.0% (2003: 9.2%).

Profit attributable to shareholders was HK\$111.3 million, an increase of 81% compared with HK\$61.4 million for the six months ended 30th September 2003. Earnings per share were HK20.7 cents (2003: HK11.9 cents).

The directors declared an interim dividend of HK5.0 cents (2003: HK3.0 cents) per share for the six months ended 30th September 2004, amounting to a total of HK\$27,823,000 (2003: HK\$15,856,000).

Liquidity and financial resources

The Group's growing profitability and prudent financial management enabled it to maintain a strong cash position with cash and deposits amounted to HK\$618 million as at 30th September 2004.

For the six months ended 30th September 2004, the Group's inventories and trade receivables were HK\$1,142 million and HK\$818 million, an increase of 64% and 23% respectively as compared with the corresponding period last year. The increase in inventories and receivable level was due to the peak shipment of Christmas orders for North American and European customers.

During the period, the Group focused on high value and sophisticated audio-visual products and in particular, answering to the high demand for TFT-LCD related items, the Group significantly increased the line-up for this product category. As a result, more working capital was required to finance the operation. As at 30th September 2004, trade payables and trust receipt loans were HK\$862 million and HK\$630 million, an increase of 22% and 216% respectively as compared with the corresponding period last year. The total interest bearing debts during the period increased to HK\$815 million, while that of the same period last year was HK\$357 million. The gearing ratio, calculated by total interest bearing debts net of cash and deposits on shareholders' equity, was 17% as at 30th September 2004. The ratio will decrease after the fulfillment of shipment to meet orders for Christmas and the Group is expected to restore to net surplus cash position. Interest expense coverage for the period was 38 times. Details on maturity profile of debts and obligations are set out in notes 10 and 11 to the financial statements.

At 30th September 2004, the Group had bills discounted with recourse to banks amounted to HK\$265,521,000 (31st March 2004: nil).

Taking advantage of the low interest environment, in November 2004, the Group arranged a 3-year syndicated term loan of HK\$350 million as a standby facility to meet future working capital requirements, especially when the Group is now pursuing larger screen TFT-LCD related products. The securing of the loan not only enhanced the Group's financial position, but also represented the bankers' strong confidence in Alco.

During the period, HK\$23 million was raised following the exercise of warrants. As at 30th September 2004, outstanding warrants numbered at 6,066,951.

Capital expenditure spent during the period was HK\$74 million (2003: HK\$55 million). At 30th September 2004, the Group had capital commitments contracted but not provided for in respect of moulds, plant and machinery amounted to HK\$2,269,000 (31st March 2004: HK\$1,690,000).

The Group's foreign exchange exposure is well managed, as nearly all the Group's sales, purchases and borrowings are denominated in US dollar and HK dollar.

Employees

As at 30th September 2004, the Group had approximately 16,000 employees in Hong Kong and the PRC. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. We also provide other benefits including medical insurance, provident fund and education subsidies to all eligible staff.

REVIEW OF OPERATIONS

During the period under review, demand for the Group's high value audio-visual products grew steadily especially for portable DVD players and home-use TFT-LCD TV with DVD players. The launching of these new models boosted sales in North America and Europe, which contributed significant income to the Group. During the review period, the Group also continued to manufacture traditional audio products, such as 20-CD home audio systems, micro audio systems and personal CD players, which remained well-received in the market.

To enhance its capabilities in developing and manufacturing high-end sophisticated products, the Group further expanded its 'clean zone' facilities and continued to invest in Surface Mount Technology ("SMT") facilities to the current total of 107 machines. The state-of-the-art production facilities gave the Group first mover advantage to launch new categories like TFT-LCD related products, adding to its diverse product range and spurring the interest of new and potential OEM and EMS customers.

Shortages in labour supply and the rise in labour cost in China have been the concerns of manufacturers. These factors prompted the Group to speed up adoption of higher automatic production procedures. The Group shifting its focus to high value products has decreased its demand for labour over the years. In addition to enhancing the SMT facilities, the Group also invested in robotic arms for its plastic moulding operation and expanded its automatic-spraying facility. The enhanced automatic production facilities not only reduced labour cost and wastage of raw materials, but also guaranteed steady production quality.

Power supply shortages has been a persistent problem in China. However, the Group has equipped itself with more than fifty power generators. This self-sufficient electricity supply ensures the smooth and uninterrupted operations and productions of the Group.

During the period under review, to maintain a diverse product range that can meet constantly altering market demands, the Group also pursued developments and production of telecom products, PC-related peripherals, and solid-state/hard-disk based digital audio products.

PROSPECTS

The Group will continue to consolidate its foundation in the European and North American markets while exploring business opportunities in new potential markets, either directly or via OEM and private-label customers. The Group is also committed to its strategy of developing more high end and high value audio-visual products, such as DVD recorders, TFT-LCD related products, digital audio products, and the like.

Besides selling to long-established OEM and EMS customers, the Group will continue to market new products directly to major retailers. The move will give it the advantage of gaining direct understanding of customer needs, hence being able to respond quickly to changes in market demand. Furthermore, in general, major retailers would only cooperate with experienced manufacturers who could deliver good quality products and take scalable bulk orders. By working closely with them, Alco will be able to secure stable and promising income.

Operations in Shenzhen and Dongguan of the Group continue to run smoothly. To maximize economies of scale and cost effectiveness while catering for massive demand during peak seasons, such as those for Christmas, the Group's Dongguan plant boasts the flexibility of working two shifts daily to ensure products are delivered on schedule. Besides, as part of its ongoing cost control measures, the Group plans to further expand the Shenzhen facilities in the short term.

The Group has already obtained ISO9000:2000 and ISO14000 certifications and is progressing with seeking ISO9000:2005 certification. These testified to Alco's continuous efforts and commitment to ensuring that its products are of good quality and reliable. The Group is determined to maintain its reputation for offering high quality products and services, and at the same time to keep pace with market demand for good value and quality products.

Looking ahead, the second half of the fiscal year continues to be challenging. Although raw materials costs are stabilizing, price pressure is still intense due to keen market competition. The Group will continue to implement prudent cost control measures and product re-engineering efforts so as to achieve better business performance.

CONNECTED TRANSACTION

Subsequent to the period end, Alco Investments (B.V.I.) Limited ("Alco Investments"), a wholly-owned subsidiary of the Company, acquired 6,000 shares, representing 20% of the issued share capital, of Alco Plastic Products Limited ("Alco Plastic") for a cash consideration of HK\$15,500,000 from Mr. LAU Kwok Wai, a director of Alco Plastic. Upon completion, the percentage shareholding of Alco Investments in Alco Plastic increased from 80% to 100%.

INTERIM DIVIDEND

The directors have resolved to declare an interim dividend of HK5.0 cents (2003: HK3.0 cents) per share for the six months ended 30th September 2004 to the shareholders whose names are on the register of members of the Company on 11th January 2005. The dividend warrants are expected to be despatched on 25th January 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 10th January 2005 to Tuesday, 11th January 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 7th January 2005.

DIRECTORS' INTERESTS IN SHARES

As at 30th September 2004, the interests and short positions of the directors in the shares of the Company, as recorded in the register required to be kept by the Company under Section 352 of the Securities and Futures Ordinance (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 (the "Model Code") were as follows:

	Long positions in shares of the Company			
	Personal interests	Corporate interests	Family interests	Total interests
Mr LEUNG Kai Ching, Kimen	18,200,000	38,891,600 <i>(note a)</i>	187,019,800 <i>(note b)</i>	244,111,400
Mr LEUNG Wai Sing, Wilson	44,640,000	–	187,019,800 <i>(note b)</i>	231,659,800
Mr KUOK Kun Man, Andrew	952,000	–	–	952,000

Notes:

- (a) These shares were owned by Shundeian Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder.
- (b) These shares were owned by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.

Save as disclosed above, as at 30th September 2004, other than one ordinary share each in the Hong Kong incorporated subsidiaries of the Company held in trust for the Group by Mr LEUNG Kai Ching, Kimen, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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 pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th September 2004, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity in which shares were held	Number of shares		Approximate shareholding percentage
		Long position	Lending pool	
Shunde Investments Limited	Beneficial owner	225,911,400 (note a)	–	40.60%
HSBC International Trustee Limited	Trustee	187,835,800 (note b)	–	33.76%
Kimen Leung UT Limited	Trustee	187,019,800 (notes a, b)	–	33.61%
J.P. Morgan Chase & Co.	Investment manager	52,550,000	7,250,000	9.44%
Leung Wai Lap, David	Beneficial owner	32,972,190	–	5.93%
Webb David Michael	Beneficial owner	28,129,400	–	5.06%

Notes:

- (a) Among the referenced shares, 38,891,600 ordinary shares were held by Shunde Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder; and 187,019,800 ordinary shares were held by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.
- (b) Among the referenced shares, 187,019,800 ordinary shares were held for Kimen Leung UT Limited, which were related to the same block of shares held by Kimen Leung UT Limited.

Save as disclosed above, as at 30th September 2004, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person, other than the Directors of the Company, whose interests are set out in the section headed "Directors' interests in shares" above, who had any interest or short position in the shares or underlying shares of the Company.

SHARE OPTION SCHEME

On 21st August 2003, the Company adopted a share option scheme under which it may grant options to eligible persons, including employees and directors of the Group, to subscribe for shares in the Company. There are no changes in any terms of the scheme during the six months ended 30th September 2004.

Up to 30th September 2004, no share option was granted under the above scheme.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30th September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the Code of Best Practice except that independent non-executive directors are not appointed for a specific term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, independent non-executive directors of the Company will retire by rotation every year and their appointments will be reviewed when they are due for re-election. In the opinion of the Company, this meets the same objective as the Code of Best Practice.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th September 2004 with directors.

The audit committee comprises three independent non-executive directors of the Company, namely Mr WONG Po Yan, the Hon LI Wah Ming, Fred, and Mr LAU Wang Yip, Derrick.

On behalf of the Board
LEUNG Kai Ching, Kimen
Chairman

Hong Kong, 20th December 2004