



Teem Foundation Group Ltd.

浩基集團有限公司*

(incorporated in Bermuda with limited liability)

2004 Interim Report

* For identification purpose only

The board of directors (the "Board") of Teem Foundation Group Ltd. (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2004 together with the comparative figures. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30th September	
		2004	2003
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	33,485	8,188
Cost of sales		(30,175)	(7,778)
Gross profit		3,310	410
Other revenue	4	137	29
Administrative expenses		(6,141)	(6,749)
Amortisation of goodwill		(1,249)	(292)
Loss from operating activities	5	(3,943)	(6,602)
Finance costs	6	(143)	(152)
Share of result of an associate		-	613
Loss before tax		(4,086)	(6,141)
Tax	7	-	167
Net loss from ordinary activities attributable to shareholders		(4,086)	(5,974)
Dividend	9	-	-
Loss per share	8		
Basic		(0.61 cents)	(0.89 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th September 2004 (Unaudited) HK\$'000	As at 31st March 2004 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		8,702	11,142
Goodwill		9,785	11,034
		18,487	22,176
CURRENT ASSETS			
Accounts receivable	10	17,116	18,589
Prepayments, deposits and other receivables		35,466	25,165
Tax recoverable		1,854	1,420
Cash and bank balances		16,396	24,064
		70,832	69,238
CURRENT LIABILITIES			
Accounts payable	11	2,395	10,613
Deposits received		11,346	–
Other payables and accruals		2,539	1,821
Due to directors		–	1,673
Current portion of hire purchase contract payables	12	2,157	1,717
		18,437	15,824
NET CURRENT ASSETS		52,395	53,414
TOTAL ASSETS LESS CURRENT LIABILITIES		70,882	75,590
NON-CURRENT LIABILITIES			
Hire purchase contract payables	12	2,944	3,566
		67,938	72,024
CAPITAL AND RESERVES			
Issued capital	13	67,200	67,200
Reserves		738	4,824
		67,938	72,024

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1st April 2004	67,200	20,607	(15,783)	72,024
Net loss for the period	–	–	(4,086)	(4,086)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th September 2004	67,200	20,607*	(19,869)*	67,938
	<hr/>	<hr/>	<hr/>	<hr/>
At 1st April 2003	67,200	20,607	(1,183)	86,624
Net loss for the period	–	–	(5,974)	(5,974)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th September 2003	67,200	20,607*	(7,157)*	80,650
	<hr/>	<hr/>	<hr/>	<hr/>

* *These reserve accounts comprise the consolidated reserves of HK\$738,000 (2003: HK\$13,450,000) in the consolidated balance sheet.*

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(8,418)	(1,971)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	932	(23,514)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(182)	(798)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,668)	(26,283)
Cash and cash equivalents at the beginning of period	24,064	28,797
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16,396	2,514
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	16,396	2,514

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost convention. The accounting policies adopted by the Group in this interim report are consistent with those in the annual financial statements for the year ended 31st March 2004.

3. TURNOVER AND SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the construction segment provides and installs of fire-rated timber door sets, as well as provides interior decoration and renovation services and other carpentry works; and
- (b) the timber segment engages in trading of timber.

In determining the Group's geographical segments, revenue are attributed to the segments based on the location of the customers.

Business segmentation analysis is presented as shown below.

	For the six months ended 30th September 2004		
	Construction (Unaudited) HK\$'000	Timber (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover	387	33,098	33,485
Segment results	88	(4,168)	(4,080)
Unallocated other revenue			137
Loss from operating activities			(3,943)
Finance costs			(143)
Loss before tax			(4,086)
Tax			-
Net loss from ordinary activities attributable to shareholders			(4,086)

	For the six months ended 30th September 2003		
	Construction (Unaudited) HK\$'000	Timber (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover	5,005	3,183	8,188
Segment results	(6,916)	285	(6,631)
Unallocated other revenue			29
Loss from operating activities			(6,602)
Finance costs			(152)
Share of results of an associate			613
Loss before tax			(6,141)
Tax			167
Net loss from ordinary activities attributable to shareholders			(5,974)

Geographical segmentation analysis is presented as shown below.

	Turnover		Segment results	
	For the six months ended 30.9.2004 (Unaudited) HK\$'000	30.9.2003 (Unaudited) HK\$'000	For the six months ended 30.9.2004 (Unaudited) HK\$'000	30.9.2003 (Unaudited) HK\$'000
Hong Kong	387	5,005	88	(6,916)
Mainland China	33,098	3,183	(4,168)	285
	33,485	8,188	(4,080)	(6,631)
Unallocated other revenue			137	29
Loss from operating activities			(3,943)	(6,602)

4. OTHER REVENUE

	For the six months ended 30th September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest income	-	-
Others	137	29
	137	29

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	For the six months ended 30th September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation	1,645	1,393

6. FINANCE COSTS

	For the six months ended 30th September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on hire purchase contracts	143	152

7. TAX

	For the six months ended 30th September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Deferred tax	–	167

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits arising in Hong Kong during the period (2003: Nil).

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the six months period ended 30th September 2004 of approximately HK\$4,086,000 (2003: HK\$5,974,000), and the weighted average of 672,000,000 (2003: 672,000,000) ordinary shares in issue during the period.

Diluted loss per share amounts for the six months ended 30th September 2004 and 2003 have not been disclosed as no diluting events existed during these periods.

9. DIVIDEND

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

10. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable as at the balance sheet date is as follows:

	As at 30th September 2004 (Unaudited) HK\$'000	As at 31st March 2004 (Audited) HK\$'000
Current – 90 days	–	14,772
91 days – 180 days	–	–
181 days – 365 days	14,772	–
Over 365 days	146	1,619
	<hr/>	<hr/>
	14,918	16,391
Retention monies receivable	2,198	2,198
	<hr/>	<hr/>
	17,116	18,589
	<hr/>	<hr/>

Interim applications for progress payments for contract works are normally made on a monthly basis. The credit period is generally for a period of two months extending up to six months for its major contract customers. For retention monies receivable in respect of contract works, the due dates are usually six months to one year after the issue of the statements of the final accounts of the contract works.

11. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the balance sheet date is as follows:

	As at 30th September 2004 (Unaudited) HK\$'000	As at 31st March 2004 (Audited) HK\$'000
Current – 90 days	–	8,610
91 days – 180 days	–	–
181 days – 365 days	460	–
Over 365 days	778	846
	<hr/>	<hr/>
	1,238	9,456
Retention monies payable	1,157	1,157
	<hr/>	<hr/>
	2,395	10,613
	<hr/>	<hr/>

12. HIRE PURCHASE CONTRACT PAYABLES

At the balance sheet date, the total future minimum lease payments under hire purchase contracts and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	As at 30th September 2004 (Unaudited) HK\$'000	As at 31st March 2004 (Audited) HK\$'000	As at 30th September 2004 (Unaudited) HK\$'000	As at 31st March 2004 (Audited) HK\$'000
Amounts payable:				
Within one year	2,380	1,964	2,157	1,717
In the second year	2,234	1,952	2,117	1,801
In the third to fifth years, inclusive	850	1,827	827	1,765
Total minimum lease payments	<u>5,464</u>	<u>5,743</u>	<u>5,101</u>	<u>5,283</u>
Future finance charge	<u>(363)</u>	<u>(460)</u>		
Total net hire purchase contract payables	5,101	5,283		
Portion classified as current liabilities	<u>(2,157)</u>	<u>(1,717)</u>		
Long term portion of hire purchase contract payables	<u>2,944</u>	<u>3,566</u>		

13. SHARE CAPITAL

	As at 30th September 2004 (Unaudited) HK\$'000	As at 31st March 2004 (Audited) HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.1 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
672,000,000 ordinary shares of HK\$0.1 each	<u>67,200</u>	<u>67,200</u>

14. COMMITMENTS AND CONTINGENT LIABILITIES

As at 30th September 2004, the Group had no significant commitments and contingent liabilities.

15. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms of three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30th September 2004 (Unaudited) HK\$'000	As at 31st March 2004 (Audited) HK\$'000
Within one year	878	958
In the second to fifth years, inclusive	–	399
	878	1,357

16. APPROVAL OF INTERIM REPORT

These interim financial statements were approved and authorised for issue by the Board on 22nd December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS**FINANCIAL REVIEW**

For the six months ended 30th September 2004, turnover of the Group was HK\$33.5 million representing an increase of 309% compared to the corresponding period last year.

The net loss attributable to shareholders of the Group for the six months ended 30th September 2004 was approximately HK\$4.1 million representing a reduction of loss for approximately HK\$1.9 million or 32% compared to the corresponding period last year. The drop is mainly due to the contribution from the Group's trading of timber business and the better control of administrative expenses.

BUSINESS REVIEW

It is the first interim period that the Group is operated under the new management. The financial results for the period support and affirm the effectiveness of the management's relentless efforts in rationalising its operations and implementation of cost control measures over the period.

Like all kinds of industries, business of the Group also opts for the strategy of globalisation development.

Though the Closer Economic Partnership Arrangement ("CEPA") has benefited the retail sector and the overall sentiment seems improving, the Group's business has not been affected by the increase in tourists visiting Hong Kong as the Group's line of business is at the back end of the business circle.


Nonetheless, the management strikes to achieve a progress in business.

While the boom in the property market has not benefited the Group as only the sales of property is getting hot, the contract price is still low. This, together with the Group's prudent attitude in avoiding credit risk, resulted in its inability to secure any new contract. Contribution to the revenue from this line of business, hence, was minimal.

On the other hand, despite the austerity measures adopted by the People Republic of China ("PRC") government during the second half of the year and the increase in lending rate to comb the over-heating economy, the timber trading business is progressing smoothly and contributes profit for the period. This together with measures taken to reduce unnecessary administrative expenses results in a reduction of net loss for the period to HK\$4.1 million (2003: HK\$6.0 million).

Faced with the complicated economic environment such as austerity measure, control in export of logs from other countries, increasing pressure for environmental protection, the Group adopted prudent operational strategies and aggressive development measures. The Group has been able to achieve some results in areas like business management, sales & marketing and "brand" building, maintaining a stable and healthy business performance with a promising growth in the PRC market as well as getting inquires from other Asian markets.

The management anticipates that with the gradual establishment of confidence with both the supplier and the customers and the continuous provision of logs in meeting the demand, this line of business would continue its growing trend.



To sum up, the major business segments of the Group have achieved improvements, both in terms of increase in turnover and significant reduction of loss. In view of the same, the management has taking measures to re-orient its direction to scopes that can bring in additional contribution to the shareholders. Additionally, the management will also continue to exercise stringent cost control, quality assurance in building up the Group's "brand" recognition, and expense control to minimize operating costs through enhanced flexibility and efficiency.

FUTURE PROSPECT

Despite the relatively young history in the trading of timber business, the ever-mounting oil prices that affect the freight forwarding cost and the austerity measure adopted by the PRC government to avoid over-heating of the economy, the Group continues to increase the sales volume and to maintain a stringent cost control. Under such operating environment and leveraging on the connection of the management, the Group, being market oriented and profit-concerned, will continue adopting the result oriented approach.

The management has started evaluating the various operation of the Group and has preliminary formulated that the trading of timber business should be the area of primary emphasis. With the increasing demand and the limited market supply of the logs, the captioned market would be booming. It is anticipated that more resources would be allotted that way.

Management of the Group is hopeful that the trading performance for the second half of the year will be even more encouraging than the first half of the financial year though:

- (a) the austerity measure adopted by the PRC government may affect the overall demand of logs in the PRC. To this, the Group is not that concern as the demand far outweighs the supply of logs;
- (b) the recent upsurge in the oil price has certain, but not much effect on the profit margin as the sales effected by the Group is arranged on "free on board" basis; and
- (c) the real threat being, the second half would be the rainy season in our logs supplying region which may affect our supplier's logging operation thereby, affecting the volume of logs available for sales.

Irrespective, the Group has already well-positioned to the market and prepared for the booming in sales when the dry season comes again with the expanded reputation and market presence – expanding also to regions other than the mid-Eastern of PRC (i.e. Shanghai) to say, Northern East of the PRC (i.e. Shandong) and to the European countries, when opportunities arise.

Meanwhile, with the recovery in the property market, construction projects may increase again. The Group would follow closely the development and submit the bid for tender when the price and risk associated with is justified.

Correspondingly, the management would continue its relentless effort in rationalizing and consolidating its businesses, to maximize revenue and minimize costs and in adopting the strategies as explicated in the last annual report including:

- (a) careful in making bidding of projects only on projects that can bring in “sufficient” margin;
- (b) streamlining the operation in trimming down those unnecessary expenses and placing staff to appropriate position;
- (c) effecting additional vertical and horizontal integration in supplying timber;
- (d) evaluating the effectiveness of expanding the timber trading business in both the products and the customers base level; and
- (e) identifying additional business opportunities that are associated with the Group’s theme and preferably with synergy effect.

The second half of the financial year 2005 will remain challenging for the Group. Although the management is optimistic in the future development and believes that the line of business would either get a recovery or continue its booming track so as to bring in additional profit to the Group, there are a number of factors, in particular, the seasonal effect at the logs supplying region, would affect the ultimate bottom line of the Group. Yet, with the development so far achieved, it is hoped that the Group may achieve a turnaround soon.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues adopting the prudent policy in maintaining a stable financial position.

The liquidity position of the Group as at the balance sheet date has not changed materially from that reported in the annual report dated 31st March 2004.

Despite the loss incurred during the six months under review, the increase in deposit required to be placed with the supplier of timber for trading purpose and the full payment upon shipment of logs, the cash position of the Group remains sound at HK\$16.4 million. Looking forward, the cash should increase in view of the move to reduce unnecessary expenses, the profit generated from the operations and the collection of accounts receivables and retention money receivables.

The increase in prepayments, deposits and other receivable is due to the additional deposits being placed for purchasing logs for trading purpose.

Correspondingly, the accounts payable has also been reduced following the settlement of payables related to previous construction projects.

Shareholder equity stood at approximately HK\$68.0 million (31st March 2004: HK\$72.0 million) and the outstanding hire purchase contract payables were of approximately HK\$5.1 million (31st March 2004: 5.3 million) and the gearing ratio, calculated on the basis of total debts divided by total equity, was 7.5% (31st March 2004: 7.3%). These hire purchase contract payables are denominated in Hong Kong Dollars and have remaining lease terms ranging from one to three years.

As at 30th September 2004, the Group had a net current assets of approximately HK\$52.4 million (31st March 2004: HK\$53.4 million) and the current ratio is 3.9 (31st March 2004: 4.4), calculated on the basis of current assets divided by current liabilities. This is considered adequate for meeting its future development.

As the majority of the inflow and outflow are both denominated in Hong Kong Dollars and the United States Dollars which are pegged together, the Group has not adopted any hedging policy. It is the Group's policy not to engage in speculative activities.

As at 30th September 2004, the Group had not pledged any kind of asset and had no significant capital commitment nor contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

The Group had a total of 26 employees as at 30th September 2004. During the period, total staff costs amounted to approximately HK\$2.7 million. This is due to the additional headcount created for the trading operation. On the other hand, in view of the continuing squeeze in margin for the projects, the inability to successfully bidding projects, the headcounts on the construction projects stream has been reduced and we would continue working toward that direction. It is expected that the total staff costs would be reduced. Employees are remunerated based on their performance and the prevailing industry practice, with remuneration policies and packages being reviewed on a regular basis. Other staff benefits provided by the Group include mandatory provident fund and medical insurance schemes.

INTERIM DIVIDEND

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30th September 2004, the interests and short positions of the directors in the share capital of the Company or 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company

Name of director	Notes	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
		Directly beneficially owned	Through corporation	Total	
Mr. Yeung Tony Ming Kwong	1	–	369,600,000	369,600,000	55
Mr. Tang Hin Keung, Alfred	2	–	134,400,000	134,400,000	20
Mr. Pun Yuen Sang	2	–	134,400,000	134,400,000	20

Notes:

- Mr. Yeung Tony Ming Kwong is interested in these shares through Smart Town Holdings Limited, a company which is 50% beneficially owned by Mr. Yeung Tony Ming Kwong and 50% beneficially owned by Mr. Liu Ching Hua.
- Mr. Tang Hin Keung, Alfred and Mr. Pun Yuen Sang are interested in these shares through Pan-Star Nominees Limited, a company which is 40%, 30% and 30% beneficially owned by Mr. Wei Ming, Mr. Tang Hin Keung, Alfred and Mr. Pun Yuen Sang, respectively.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

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

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was conditionally approved by a written resolution of all shareholders of the Company dated 6th July 2002. No share option have been granted under the Scheme up to the date of approval of the Interim Report.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES

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

Long positions in ordinary shares of the Company

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Smart Town Holdings Limited	1	Directly beneficially owned	369,600,000	55
Mr. Liu Ching Hua	1	Through a corporation	369,600,000	55
Pan-Star Nominees Limited	2	Directly beneficially owned	134,400,000	20
Mr. Wei Ming	2	Through a corporation	134,400,000	20

Notes:

- (1) The ordinary shares are held by Smart Town Holdings Limited, which is 50% beneficially owned by Mr. Yeung Tony Ming Kwong and 50% beneficially owned by Mr. Liu Ching Hua.
- (2) The ordinary shares are held by Pan Star Nominees Limited, which is 40%, 30% and 30% beneficially owned by Mr. Wei Ming, Mr. Tang Hin Keung, Alfred and Mr. Pun Yuen Sang, respectively.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September 2004.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th September 2004, except that the non-executive directors of the Company were not appointed for specific terms as recommended under Appendix 14 of the Listing Rules, but are subject to retirement by rotation in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code as set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee is for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. These interim financial statements have been reviewed by the audit committee. The audit committee comprises two independent non-executive directors of the Company.

By order of the Board
Lum Chor Wah, Richard
Chairman

Hong Kong, 22nd December 2004