

The board of directors (the “Directors”) of Deson Development International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2004, together with the 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	2004 HK\$'000	2003 HK\$'000
<b>TURNOVER</b>	3	<b>217,686</b>	282,864
Other revenue and gains	3	<b>60,294</b>	5,986
Cost of construction contracts and direct expenses		<b>(137,136)</b>	(142,053)
Cost of property interests sold		<b>(25,877)</b>	(96,783)
Cost of inventories sold		<b>(17,449)</b>	(2,979)
Staff costs		<b>(16,504)</b>	(12,924)
Depreciation expense		<b>(2,932)</b>	(960)
Other operating expenses		<b>(33,734)</b>	(13,566)
		<u><b>(233,632)</b></u>	<u>(269,265)</u>
<b>PROFIT FROM OPERATING ACTIVITIES</b>		<b>44,348</b>	19,585
Finance costs	4	<b>(1,381)</b>	(1,966)
Share of profits and losses of: A jointly-controlled entity		<b>(8)</b>	–
Associates		<b>(473)</b>	(942)
		<u><b>42,486</b></u>	<u>16,677</u>
<b>PROFIT BEFORE TAX</b>		<b>42,486</b>	16,677
Tax	5	<b>698</b>	(7,303)
		<u><b>43,184</b></u>	<u>9,374</u>
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>43,184</b>	9,374
Minority interests		<b>68</b>	717
		<u><b>43,252</b></u>	<u>10,091</u>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<u><b>43,252</b></u>	<u>10,091</u>
<b>EARNINGS PER SHARE</b>	6		
Basic		<u><b>HK0.90 cent</b></u>	<u>HK0.21 cent</u>
Diluted		<u><b>HK0.88 cent</b></u>	<u>N/A</u>

**CONSOLIDATED BALANCE SHEET**

30 September 2004

		<b>30 September 2004</b>	31 March 2004
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>53,406</b>	54,237
Goodwill		<b>22,843</b>	21,401
Interest in a jointly-controlled entity	7	<b>10,186</b>	556
Interests in associates	8	<b>35,656</b>	7,366
Long term investments		<b>8,553</b>	8,153
Deferred tax assets		<b>382</b>	453
		<u><b>131,026</b></u>	<u>92,166</u>
<b>CURRENT ASSETS</b>			
Properties held for sale		<b>262,863</b>	280,260
Gross amount due from contract customers		<b>32,996</b>	17,599
Inventories		<b>6,977</b>	7,160
Accounts receivable	9	<b>66,394</b>	73,317
Prepayments, deposits and other receivables		<b>32,523</b>	29,940
Pledged time deposits		<b>47,798</b>	32,781
Cash and cash equivalents		<b>95,280</b>	34,884
		<u><b>544,831</b></u>	<u>475,941</u>
<b>CURRENT LIABILITIES</b>			
Gross amount due to contract customers		<b>40,910</b>	39,483
Accounts payable	10	<b>68,676</b>	54,082
Other payables and accruals		<b>73,724</b>	104,599
Tax payable		<b>11,209</b>	13,685
Provision for scheme debts		<b>1,047</b>	1,047
Interest-bearing bank and other borrowings		<b>56,911</b>	48,959
		<u><b>252,477</b></u>	<u>261,855</u>
<b>NET CURRENT ASSETS</b>		<u><b>292,354</b></u>	<u>214,086</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>423,380</b></u>	<u>306,252</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>(7,080)</b>	(8,996)
Deferred tax liabilities		<b>(991)</b>	(930)
		<u><b>(8,071)</b></u>	<u>(9,926)</u>
<b>MINORITY INTERESTS</b>		<u><b>(78,229)</b></u>	<u>(17,561)</u>
		<u><b>337,080</b></u>	<u>278,765</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	<b>51,675</b>	46,688
Reserves	12	<b>285,405</b>	232,077
		<u><b>337,080</b></u>	<u>278,765</u>

**CONSOLIDATED SUMMARY STATEMENT OF CHANGES  
IN EQUITY***For the six months ended 30 September 2004*

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Total equity at 1 April	<b>278,765</b>	264,800
Repurchase of the Company's shares	<b>(7,090)</b>	–
Share repurchase expenses	<b>(110)</b>	–
Exercise of warrants of the Company	<b>22,324</b>	
Deficit on revaluation of land and buildings	–	(796)
Impairment of goodwill	–	5,887
Provision for deferred tax liabilities charged to the revaluation reserve	<b>(61)</b>	–
Exchange realignment of subsidiaries	–	(570)
Exchange realignment of associates	–	(34)
	<hr/>	<hr/>
Net profit not recognised in the profit and loss account	<b>15,063</b>	4,487
	<hr/>	<hr/>
Net profit for the period attributable to shareholders	<b>43,252</b>	10,091
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Total equity at 30 September	<b><u>337,080</u></b>	<b><u>279,378</u></b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2004*

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(15,025)</b>	73,516
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>36,461</b>	(6,516)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>50,195</b>	(41,821)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>71,631</b>	25,179
Cash and cash equivalents at beginning of period	<b>37,104</b>	11,797
Effect of foreign exchange rate changes, net	–	(147)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>108,735</b>	36,829
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>95,280</b>	48,604
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	<b>34,587</b>	30,774
Bank overdrafts, secured	<b>(21,132)</b>	(42,549)
	<b>108,735</b>	36,829

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed financial statements for the period ended 30 September 2004 have been prepared in accordance with the Statement of Standard Accounting Practice ("HKSSAP") 25 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2004.

## 2. 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.

## (a) Business segments

	Construction business		For the six months ended 30 September				Consolidated	
	2004	2003	Property development and investment		Fitness club and related business		2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	149,790	157,839	31,577	120,851	36,319	4,174	217,686	282,864
Other revenue	1,227	3,841	1,753	1,176	518	-	3,998	5,017
<b>Total</b>	<b>151,517</b>	<b>161,680</b>	<b>33,330</b>	<b>122,027</b>	<b>36,837</b>	<b>4,174</b>	<b>221,684</b>	<b>287,881</b>
Segment results	(11,799)	6,735	7,434	23,980	(3,723)	140	(8,088)	30,855
Interest income and dividend income							229	951
Gain on disposal of subsidiaries							-	18
Gain on deemed disposal of interest in a subsidiary							15,885	-
Gain on disposal of interest in a subsidiary							40,182	-
Unallocated expenses							(3,308)	(6,088)
Impairment of goodwill							-	(264)
Amortisation of goodwill							(552)	(5,887)
Profit from operating activities							44,348	19,585
Finance costs							(1,381)	(1,966)
Share of profits and losses of:								
A jointly-controlled entity	(8)	-	-	-	-	-	(8)	-
Associates	(473)	451	-	-	-	(1,393)	(473)	(942)
Profit before tax							42,486	16,677
Tax							698	(7,303)
Profit before minority interests							43,184	9,374
Minority interests							68	717
Net profit attributable to shareholders							43,252	10,091
Other segment information:								
Depreciation	764	856	216	66	1,908	-	2,888	922
Unallocated amounts							44	38
							2,932	960
Other non-cash expenses	551	82	-	-	1	-	552	82
Unallocated amounts							-	6,157
							552	6,239

**(b) Geographical segments**

	For the six months ended 30 September					
	Hong Kong		Mainland China		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>125,116</u>	<u>80,696</u>	<u>92,570</u>	<u>202,168</u>	<u>217,686</u>	<u>282,864</u>

**3. TURNOVER, REVENUE AND GAINS**

Turnover represents the aggregate of gross revenue earned from construction work and the net amount of maintenance work invoiced, income from property development and investment, together with the income from fitness club and related business.

An analysis of turnover, other revenue and gains is as follows:

	For the six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
<b>Turnover</b>		
Construction contracting and related businesses	<b>149,790</b>	157,839
Income from property development and investment	<b>31,577</b>	120,851
Fitness club and related business	<b>36,319</b>	4,174
	<u><b>217,686</b></u>	<u>282,864</u>
<b>Other revenue and gains</b>		
Interest income	<b>148</b>	875
Gross rental income	<b>1,142</b>	1,697
Management fee on construction projects	<b>230</b>	541
Management fee received from associates	<b>355</b>	223
Dividend income from listed long term investments	<b>81</b>	76
Gain on disposal of interest in a subsidiary	<b>40,182</b>	–
Gain on deemed disposal of interest in a subsidiary	<b>15,885</b>	–
Others	<b>2,271</b>	2,574
	<u><b>60,294</b></u>	<u>5,986</u>

## 4. FINANCE COSTS

	For the six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Interest expense on bank loans, overdrafts and other borrowings: wholly repayable within five years	1,334	2,781
wholly repayable after five years	209	37
Interest on convertible notes	–	33
	<hr/>	<hr/>
Total finance costs	1,543	2,851
Less: Interest capitalised	(162)	(885)
	<hr/>	<hr/>
	<b>1,381</b>	<b>1,966</b>
	<hr/>	<hr/>

## 5. 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 elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	–	928
Elsewhere	1,585	6,716
Overprovision in prior year		
Elsewhere	(1,973)	–
Deferred	–	(480)
	<hr/>	<hr/>
	<b>(388)</b>	<b>7,164</b>
	<hr/>	<hr/>
Share of tax attributable to associates	(310)	139
	<hr/>	<hr/>
Total tax charge/(credit) for the period	<b>(698)</b>	<b>7,303</b>
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A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u>42,486</u>		<u>16,677</u>	
Tax at the statutory tax rate of 17.5%	7,435	17.5	2,919	17.5
Effect of different tax rates for companies operating in other jurisdictions	872	2.1	2,054	12.3
Adjustments in respect of current tax of previous periods	(2,284)	(5.4)	-	-
Income not subject to tax	(10,119)	(23.8)	(39)	(0.2)
Expenses not deductible for tax	96	0.2	1,157	6.9
Tax loss utilised from previous periods	(234)	(0.5)	(631)	(3.8)
Tax losses not recognised	3,590	8.4	1,528	9.2
Others, net	(54)	(0.1)	315	1.9
Tax charge/(credit) at effective rate	<u>(698)</u>	<u>(1.6)</u>	<u>7,303</u>	<u>43.8</u>

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$43,252,000 (2003: HK\$10,091,000) and the weighted average of 4,801,139,000 (2003: 4,791,613,000) shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders of HK\$43,252,000 and the weighted average of 4,921,549,000 shares in issue during the period.

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation to that used in the diluted earnings per share calculation is as follows:

	2004
Weighted average number of shares used in the basic earnings per share calculation	4,801,139,000
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of the warrants expiring on 14 August 2004	<u>120,410,000</u>
Weighted average number of shares used in the diluted earnings per share calculation	<u>4,921,549,000</u>



Diluted earnings per share for the period ended 30 September 2003 had not been disclosed, as the warrants and options outstanding during that period had an anti-dilutive effect on the basic earnings per share for the period.

## 7. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Share of net assets	467	475
Due from a jointly-controlled entity	<u>9,719</u>	<u>81</u>
	<b><u>10,186</u></b>	<b><u>556</u></b>

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity at the balance sheet date are as follows:

Name	Business structure	Place of incorporation or registration/ operations	ownership interest	Percentage of voting power	profit sharing	Principal activities
Kenworth-Watfield Joint Venture Limited	Corporate	Hong Kong	50	50	50	Provision of electrical and mechanical engineering services

The jointly controlled entity is held through subsidiaries.

## 8. INTERESTS IN ASSOCIATES

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Share of net assets	4,851	6,376
Due from associates	31,430	1,615
Due to associates	<u>(625)</u>	<u>(625)</u>
	<b><u>35,656</u></b>	<b><u>7,366</u></b>

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal associates at the balance sheet date are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Class of shares held	Percentage of ownership attributable to the Group	Principal activities
Asia Construction Holdings Limited	Corporate	Hong Kong	Ordinary	49	Investment holding
Beijing Zhong Min Gas Co. Ltd. (ii)	Corporate	PRC	(i)	25.5	Investment holding
Deson Metals Company Limited	Corporate	Hong Kong/ PRC	Ordinary	40	Trading of construction materials
Fuzhou Jiandi Concrete Co., Ltd. (ii)	Corporate	PRC	(i)	40	Manufacture of concrete products
LongXin (YanTing) Natural Gas Company Limited (ii)	Corporate	PRC	(i)	25.3	Distribution and supply of piped natural gas and installation of natural gas distribution facilities
Mian Zhu City Hong Sen Natural Gas Co., Ltd. ("Hong Sen") (ii)	Corporate	PRC	(i)	25.5	Distribution and supply of piped natural gas
Mian Zhu City Hongsen Glass Products Company Limited (ii)	Corporate	PRC	(i)	17.9	Manufacturing and sales of glass products
Mian Zhu City Long Teng Gas Installation Co., Ltd ("Long Teng") (ii)	Corporate	PRC	(i)	25.5	Installation of gas distribution facilities
Visonic Deson Limited	Corporate	Hong Kong	Ordinary	50	Selling, distributing and marketing of home security and automation products
W & D Joint Venture Limited	Corporate	Hong Kong	Ordinary	45	Construction contracting
Xin Hua Resource Investment Limited ("Xin Hua")	Corporate	British Virgin Islands/PRC	Ordinary	25.5	Investment holding

- (i) The issued or paid-up capital of these associates is not classified.
- (ii) The remittance of dividends to the Group from these associates operating outside Hong Kong is subject to the availability of foreign currencies generated and retained by these associates.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

## 9. ACCOUNTS RECEIVABLE

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

	30 September 2004			31 March 2004		
	Balance HK\$'000	Provisions HK\$'000	Net balance HK\$'000	Balance HK\$'000	Provisions HK\$'000	Net balance HK\$'000
Current – 90 days	40,338	–	40,338	51,983	–	51,983
91 – 180 days	14,196	–	14,196	7,164	(234)	6,930
181 – 360 days	10,133	(2,525)	7,608	8,827	(4,926)	3,901
Over 360 days	44,900	(43,844)	1,056	50,211	(41,834)	8,377
	<u>109,567</u>	<u>(46,369)</u>	<u>63,198</u>	<u>118,185</u>	<u>(46,994)</u>	<u>71,191</u>
Retention money receivable	30,446	(27,250)	3,196	30,764	(28,638)	2,126
Total	<u>140,013</u>	<u>(73,619)</u>	<u>66,394</u>	<u>148,949</u>	<u>(75,632)</u>	<u>73,317</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 60 days. For retention receivables in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

## 10. ACCOUNTS PAYABLE

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

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Current – 90 days	62,595	47,437
91 – 180 days	437	2,818
181 – 360 days	3,400	541
Over 360 days	2,244	3,286
	<u>68,676</u>	<u>54,082</u>

## 11. SHARE CAPITAL

## Shares

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.01 each	<b><u>150,000</u></b>	<b><u>150,000</u></b>
Issued and fully paid:		
5,167,540,176 (31 March 2004: 4,668,779,496) ordinary shares of HK\$0.01 each	<b><u>51,675</u></b>	<b><u>46,688</u></b>

During the period, the movements in share capital were as follows:

- (i) The Company repurchased a total of 177,720,000 of its own shares on the Stock Exchange for a total consideration, before expenses, of HK\$7,090,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK\$1,778,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchased shares was charged against the share premium account.
- (ii) 676,480,680 shares were issued for cash at a subscription price of HK\$0.033 per share, pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of HK\$22,324,000.

A summary of the transactions during the period with reference to the above movements in the Company's issued ordinary share capital as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2003	4,791,612,750	47,916	104,015	151,931
Arising on repurchase of shares	(479,161,254)	(4,791)	(14,375)	(19,166)
Share repurchase expenses	-	-	(1,281)	(1,281)
Arising on exercise of share options	256,000,000	2,560	4,981	7,541
Arising on exercise of warrants	100,328,000	1,003	2,308	3,311
At 31 March 2004	4,668,779,496	46,688	95,648	142,336
Arising on repurchase of shares	(177,720,000)	(1,778)	(5,312)	(7,090)
Share repurchase expenses	-	-	(110)	(110)
Arising on exercise of warrants	676,480,680	6,765	15,559	22,324
At 30 September 2004	<b><u>5,167,540,176</u></b>	<b><u>51,675</u></b>	<b><u>105,785</u></b>	<b><u>157,460</u></b>

## Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in the section "Share option scheme".

## Warrants

Pursuant to an ordinary resolution passed on 14 August 2002, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 13 August 2002, resulting in 958,323,000 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.01 each at a subscription price of HK\$0.033 per share, payable in cash and subject to adjustment, from the date of issue to 14 August 2004, both dates inclusive.

During the period, 676,480,680 warrants were exercised resulting in the issue of 676,480,680 shares of HK\$0.01 each at a price of HK\$0.033 per share. The remaining warrants were expired on 14 August 2004 and accordingly, no warrant was outstanding as at the balance sheet date.

## 12. RESERVES

	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed asset revaluation reserve HK\$'000	Capital reserve HK\$'000	Exchange redemption reserve HK\$'000	fluctuation reserve HK\$'000	Reserve funds HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2004	95,648	15,262	7,784	4,259	5,577	911	3,260	99,376	232,077
Repurchase of shares	(5,312)	-	-	-	1,778	-	-	(1,778)	(5,312)
Share repurchase expenses	(110)	-	-	-	-	-	-	-	(110)
Arising on exercise of warrants	15,559	-	-	-	-	-	-	-	15,559
Provision for deferred tax liabilities charged to revaluation reserve	-	-	(61)	-	-	-	-	-	(61)
Net profit for the period	-	-	-	-	-	-	-	43,252	43,252
At 30 September 2004	<u>105,785</u>	<u>15,262</u>	<u>7,723</u>	<u>4,259</u>	<u>7,355</u>	<u>911</u>	<u>3,260</u>	<u>140,850</u>	<u>285,405</u>
Reserves retained by:									
Company and subsidiaries	105,785	15,262	7,723	4,259	7,355	1,882	3,260	127,675	273,201
A jointly-controlled entity	-	-	-	-	-	-	-	(33)	(33)
Associates	-	-	-	-	-	(971)	-	13,208	12,237
At 30 September 2004	<u>105,785</u>	<u>15,262</u>	<u>7,723</u>	<u>4,259</u>	<u>7,355</u>	<u>911</u>	<u>3,260</u>	<u>140,850</u>	<u>285,405</u>

### 13. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

	Notes	2004 HK\$'000	2003 HK\$'000
Management fees			
received from associates	(1)	330	493
Interest incomes from			
an associate	(2)	–	200
Rental income from			
an associate	(3)	–	447

Notes:

- (1) The management fees were charged by reference to costs incurred for services provided by the Group.
- (2) The interest income relates to advances to an associate which bore interest at prevailing market rates.
- (3) The rental income was calculated by reference to open market rentals.

### DIVIDENDS

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2004 (2003: Nil).

### BUSINESS REVIEW

The Group's turnover for the period was HK\$217,686,000 which represented a decrease of 23.04% as compared with the corresponding last period. The net profit attributable to shareholders amounted to approximately HK\$43,252,000 representing an increase of 328.62% from last period. Earnings per share is approximately HK0.90 cent.

The Group's major business segment comprises (i) construction contracting (including electrical and mechanical ("E&M") works); (ii) property development and investment; (iii) operation of fitness centres and trading of fitness equipment; and (iv) distribution, supply and installation of piped natural gas.

During this period, the Group already completed projects such as fitting out (including installation of marbles) for 4th to 6th floors of Ongoing Department Store, Shanghai and a 2-year term contract for Design and Construction of fitting

out works: Kowloon and New Territories – Eastern Region. However, the Group is suffered from the keen competition in the construction industry. Accordingly, turnover and profit margin decreased during this period.

More to note, during the period, the Group sold certain units in Phase II and Phase III, Asian Villas, Haikou, Hainan Province and certain units in Parkview Garden, Shanghai, which contributed a meaningful turnover and profit to the Group. The turnover in this sector decreased significantly due to the recognition of most of the turnover in Parkview Garden in last period.

During the period, the Group successfully reorganised the business activities within Deson Group. Details of which is included in the “Major Transactions” section of this report. After this reorganisation, Chinese People Gas Holdings Company Limited (“Chinese People”) and its subsidiaries (“Chinese People Group”), subsidiaries of the Company, concentrates on distribution, supply and installation of piped natural gas and property holding and investment. Deson Group (other than Chinese People Group) concentrates on (i) construction contracting (including E&M works); (ii) property development and investment; (iii) operation of fitness centres and trading of fitness equipment. During this reorganisation, Chinese People successfully placed a total of 1,095,000,000 new shares at HK\$0.1 each in exchange for certain assets and cash and the Group recognised a gain of approximately HK\$16 million in this transaction.

On 27 July 2004, Deson signed a placing agreement with Guotai Junan Securities (Hong Kong) Limited, on a best effort basis, to place 175,000,000 shares of Chinese People at HK\$0.3 each and all the 175,000,000 Chinese People shares were successfully placed out. As a result, the Group recognised a profit of approximately HK\$40 million. On 2 August 2004, Chinese People signed a sales and purchase agreement with an independent third party to acquire additional 51% interests in Xin Hua and focus on distribution, supply and installation of piped natural gas, the transaction was completed on 25 October 2004.

## PROSPECTS

### **Construction business (including E&M works)**

The Group will uphold an on-going parallel development of its construction business (including E&M works) in both the PRC and Hong Kong. With its proven track records and adequate expertise in the main contracting business, the Group is now included in the “List of Approved Contractors

for Public Works under Group C (on probation) of the Building Category under Environment, Transport and Works Bureau of the HKSAR". In May 2004, the Group was upgraded to Group II under the "Turn-key Interior Design and Fitting-out Works" under the "List of Approved Suppliers of Materials and Specialist Contractors for Public Works", this together with the 11 licenses held under the "List of Approved Suppliers of Materials and Specialist Contractors for Public Works under Environment, Transport and Works Bureau of the Government of the HKSAR", enables the Group to take an active part in the construction business development (including E&M works).

During this period, new projects such as office fitting out and E&M works for 5 floors in International Finance Centre II, Central, Hong Kong, renovation and E&M works of 292 rooms of Beijing Hilton Hotel, main contractor for renovation works including E&M works in Sharps Street, Wan Chai, Hong Kong and 2 years' term contract for inspection, repair, overhaul and testing of E&M installations at various Sewage Treatment Works and Pumping Stations in the New Territories were awarded. As at the date of this report, the Group has contracts on hand with a total contract sum of over HK\$800 million. The Directors fully believe that the positive signs that the Hong Kong economy is gradually improving and that the confidence is built up in the Government of the HKSAR will have a double-functioning positive impact on the Group's construction business in time to come.

### **Property development and investment**

The development of high-class residential property development project, Parkview, near the Botanical Gardens in Shanghai with a gross floor areas of approximately 56,000 sq. metres was completed in December 2003. Certain units of the Parkview project were sold at a total contractual sum of over RMB280 million. As Shanghai is now vigorously developing into a metropolis serving as an international financial, information and transportation center, the Directors believe that this project has great market potential and bright prospects by virtue of its unique Botanical Gardens surroundings.

In addition, Southern Area of Asian Villas, Haikou, Hainan Province being under foundation construction, which will be developed into a residential, hotel and commercial complex with a total gross floor area of approximately 120,000 sq. metres, is expected to be completed by the end of 2005. Presale is expected to commence in March 2005.



The Directors are confident that the aforesaid projects will have a significant contribution to the turnover and profit of the Group in the coming years.

The Directors are now looking for property development projects in PRC prime cities and may acquire additional land bank for property development purpose, however, the Group has no specific investment plan in relation to any particular project.

Noteworthy is the fact that Directors believe the opening of the Universal Studios in 2006 in Shanghai, PRC and the hosting of the World Expo in 2010 which will have a positive impact on the PRC property market and the property development and investment segment will continue to provide a sizable contribution to the Group's operating results in the coming years.

### **Operation of sports club, fitness and spa centres and related business**

The first fitness and spa centre owned by the Group was established in Hua Hai Zhong Lu, Shanghai in October 2000. In the past few years, more fitness and spa centres were opened in various locations in the PRC including Wuhan, Urumqi and Shenzhen. In May 2004, one of the biggest sport club in the PRC was opened in Jinqiao, Shanghai, PRC. This sports club has a total gross floor area of approximately 11,000 square meters. The Group currently has over 12,000 members. As Beijing has won the right to host the 2008 Olympic Games, the Directors believe that such event will stimulate the public's enthusiasm in fitness and sports and this business segment will provide a favourable contribution to the Group's revenue in the future.

### **Natural gas business**

In April 2004, the Group acquired certain interests in natural gas business to diversify the Group's operation. The PRC has historically relied heavily on coal as its primary energy source but the PRC government in recent years has encouraged the use of other more environmentally friendly forms of fuel such as natural gas to combat the pollution and environmental damage caused by coal combustion. The natural gas market currently only share a very low percentage of the total energy source supply in PRC and the Directors are of the view that this business segment has a high potential for future growth.

In view of the high growth potential of natural gas business, the Group acquired an aggregate 49% interests in Xin Hua, which then had 33% interest in Hong Sen and Long Teng, both engage in the distribution and supply of piped natural gas in the PRC. In August 2004, the Group entered into an agreement for the acquisition of the remaining 51% in Xin Hua. The Directors are of the view that this business segment has a high potential for future growth.

## MAJOR TRANSACTIONS

1. On 18 February 2004, Chinese People Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua and its related shareholders' loans (collectively the "Xin Hua Acquisition") for HK\$29,500,000. The consideration for the Xin Hua Acquisition was satisfied by way of issuing 295,000,000 shares of Chinese People at HK\$0.10 each.
2. On 18 February 2004, the Company entered into an agreement with Chinese People to dispose of the entire issued share capital of Penmark Limited and the related shareholder's loan (collectively the "Penmark Disposal") at a consideration of HK\$7,500,000. The consideration was satisfied by issuing 75,000,000 shares of Chinese People at HK\$0.10 each. Chinese People also granted to the Company an option to subscribe for one option share for every two shares issued at the option exercise price of HK\$0.105 per option share.
3. On 18 February 2004, the Company entered into an agreement with Chinese People to acquire the entire issued share capital of Kenworth Group Limited and the related shareholder's loan (the "Kenworth Acquisition") for HK\$7,000,000. The consideration was paid by the Company in cash.
4. On 18 February 2004, Chinese People entered into a placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each. The placing agent agreed to place to not less than six independent places i) 200,000,000 placing shares on a fully underwritten basis and ii) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the placing agreement, Chinese People granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.

5. On 18 February 2004, Super Win Development Limited ("Super Win") entered into a subscription agreement with Chinese People. Chinese People would issue 325,000,000 new shares to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000 (the "Subscription"). Pursuant to the subscription agreement, Super Win would be entitled to subscribe for one option share for every two shares subscribed for at the option exercise price of HK\$0.105 per option share.

The above transactions were approved by the shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

On 27 July 2004, Super Win entered into a placing agreement with a placing agent to place up to 175,000,000 shares in Chinese People at a price of HK\$0.30 each. The placing agent agreed to place to not less than six independent places the placing shares on a best efforts basis. An aggregate of 175,000,000 placing shares were successfully placed.

## POST BALANCE SHEET EVENTS

- (a) On 2 August 2004, Brilliant China Investments Limited ("Brilliant China"), a subsidiary of the Company, entered into an agreement with an independent third party to acquire a 51% shareholding interest in Xin Hua, an associate of the Company in which Chinese People owned as to 49% interest, and a related shareholder's loan (collectively the "Second Xin Hua Acquisition") for HK\$65 million. The consideration was paid by Brilliant China in cash out of the internal resources of the Group. The Second Xin Hua Acquisition was approved by the shareholders of the Company at a special general meeting on 20 October 2004 and was completed on 25 October 2004. Upon completion, Xin Hua becomes a subsidiary of the Company.
- (b) On 15 December 2004, Deson Development Holdings Limited ("Deson Holdings"), a wholly-owned subsidiary of the Company, entered into a conditional sales and purchases agreement with Asian Allied Limited ("Asian Allied") (the "Sales and Purchases Agreement"). Pursuant to the Sales and Purchases Agreement, Deson Holdings agreed to dispose to Asian Allied the entire issued share capital of Super Win and the related shareholder's loan for an aggregate consideration of HK\$136,172,425.6.

The sole asset of Super Win is its legal and beneficial interest in 1,361,724,256 shares of Chinese People shares and 200,000,000 options to subscribe new shares of Chinese People at HK\$0.105 each.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at 30 September 2004, the Group had total assets of HK\$675,857,000 and current liabilities, long term liabilities, shareholders' equity and minority interests of HK\$252,477,000, HK\$8,071,000, HK\$337,080,000 and HK\$78,229,000, respectively.

The Group continued to maintain a low gearing ratio, at 2% (31 March 2004: 3%). It was calculated based on the long term borrowings of HK\$8,071,000 (31 March 2004: HK\$9,926,000) and long term capital of HK\$423,380,000 (31 March 2004: HK\$306,252,000).

Most bank borrowings are prime rate based and the Group expects a favourable effect on the low interest rate environment. The bank borrowings and cash and bank balances were principally denominated in Hong Kong dollars and Renminbi. Hence, there is no significant exposure to foreign exchange rate fluctuations.

## **CONNECTED TRANSACTIONS**

On 18 February 2004, the Group entered into the following connected transactions:

1. Penmark Disposal
2. Kenworth Acquisition
3. Subscription

The above transactions were approved by the shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

## **CAPITAL STRUCTURE**

The Group's long-term capital mainly comprised of shareholders' equity which is confirmed with the low gearing ratio as discussed in the section "Liquidity and capital resources" above.

**RISK OF CURRENCY FLUCTUATION**

The Group's receivables and payables were denominated mainly in US dollar, Hong Kong dollar and Renminbi. Since Hong Kong dollar is linked to US dollar, and Renminbi is relatively stable, we consider the exchange risk is not significant.

**PROFORMA COMBINED BALANCE SHEET OF AFFILIATED COMPANIES**

As at the balance sheet date, the advances made to a jointly-controlled entity and associates in the amount of HK\$9,719,000 and HK\$31,430,000 respectively, represents approximately 12.21% of the net asset value of the Group. Pursuant to Listing Rules 13.22, a proforma combined balance sheet of the affiliated companies as at 30 September 2004 is presented below:

	<i>HK\$'000</i>
Non-current assets	40,809
Current assets	85,992
Current liabilities	(54,958)
Non-current liabilities	(54,923)
Minority interest	<u>(1,823)</u>
Deficiency in shareholders' fund	<u><u>15,097</u></u>

**CONTINGENT LIABILITIES**

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Guarantees of banking facilities granted to: Associates	<u><u>–</u></u>	<u><u>31,300</u></u>

- (b) In October 2000, Kenworth Engineering Limited ("Kenworth"), a wholly owned subsidiary of the Group, received a claim of approximately HK\$341 million from a main contractor of a construction project for the alleged breach of a subcontract which Kenworth has not admitted. The claim amount was revised to HK\$141 million in 2002. A counterclaim was submitted by Kenworth against this main contractor for the outstanding contract sum in respect of the completed work and the loss due to the wrongful termination of the subcontract. Under the provisions of the subcontract, the disputed claim is subject to arbitration proceedings between Kenworth and the main contractor. The arbitration application was lodged before the commencement of the Schemes and the process commenced in August 2002 upon the appointment of the arbitrator. As at the date of these financial statements, a security deposit of HK\$5 million has been paid by the Group to the arbitrator and both Kenworth and the main contractor are in the process of submitting information to the arbitrator for assessment. The administrator of scheme ("Scheme Administrator") is required to await the arbitrator's decision or, in the event that such decision is subject to appeal or further appeal(s) by either party thereto, to await the ultimate outcome and final decision to be made by the relevant appellate body. In any event, the claim, if awarded in favour of the main contractor, is still subject to the terms and conditions of the Schemes.

In relation to the same construction project detailed above, in October 2000 Kenworth also received a claim of approximately HK\$353 million from the contract employer in respect of damages for the alleged breach of the same subcontract. The claim amount was revised to HK\$237 million in 2002. On 3 December 2004 the Scheme Administrator received a notice from the contract employer to withdraw this claim.

## OPERATING LEASE ARRANGEMENTS

Certain office properties leased by the Group are under operating lease arrangements, with leases negotiated for terms ranging from one to ten years.

At 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 September 2004</b>	31 March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	7,783	7,924
In the second to fifth years, inclusive	<b>18,023</b>	18,068
After five years	<b>16,204</b>	18,148
	<u><b>42,010</b></u>	<u>44,140</u>

## CAPITAL COMMITMENTS

As at 30 September 2004, the Group had no significant capital commitments except as disclosed in the section "Post Balance Sheet Events".

## CHARGES ON GROUP ASSETS

The bank loans and the Group's banking facilities are secured by:

- (i) certain of the Group's completed properties held for sale situated in Mainland China, which had an aggregate carrying value at the balance sheet date of HK\$40,386,000 (31 March 2004: HK\$40,386,000);
- (ii) certain of the Group's land and buildings situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK\$32,015,000 (31 March 2004: HK\$32,420,000); and
- (iii) the pledge of certain of the Group's time deposits amounting to HK\$47,798,000 (31 March 2004: HK\$32,781,000).

## EMPLOYEE SCHEMES

As at 30 September 2004, the Group had 400 employees, 257 of whom were based in the PRC.

The remuneration policy and package of the Group's employees are reviewed and approved by the directors. Apart from pension funds, discretionary bonus and share options are linked to individual performance as recognition of and reward for value creation.

## SHARE OPTION SCHEME

The particulars in relation to each share option scheme of the Company or any of its subsidiaries that are required under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and SSAP 34 are disclosed below:

### (a) Share option schemes of the Company

On 14 August 2002, the share option scheme of the Company adopted on 21 May 1997 ceased to operate and a new share option scheme (the "Deson Scheme") was adopted on the same date to comply with the 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.

The Company operates the Deson Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Deson Scheme include the Company's directors, including independent non-executive directors, the Company's shareholders and other employees of the Group. The Deson Scheme became effective on 14 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Deson Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Deson Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.



Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the Deson Scheme at any time during a period not exceeding 10 years after the date when the option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

At 31 March 2004 and 30 September 2004, no share options were outstanding under the Deson Scheme and none of Deson's directors or Deson Group's employees were granted share options during the period.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

#### **(b) Share option scheme of Chinese People**

Chinese People operates a share option scheme (the "Chinese People Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Chinese People Group's operations. Eligible participants of the Chinese People Scheme include full-time employees (including executive directors), of Chinese People. The Chinese People Scheme became effective on 4 April 1997 and, unless otherwise amended or altered, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Chinese People Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Chinese People in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Chinese People Scheme is limited to 25% of the aggregate number of Chinese People's shares for the time being issued and are issuable under the Chinese People Scheme.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than three years from the date of the offer of the share options or the expiry date of the Chinese People Scheme, if earlier.

The exercise price of the share options is determinable by the directors at their discretion and will be the higher of a price being not less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the offer date, and the nominal value of the shares of Chinese People.

On 1 September 2001, the Stock Exchange amended Chapter 17 (Share Option Schemes) of the Listing Rules. In accordance with the revised rules, it is possible for Chinese People to grant further options from its existing scheme only if the options granted are in accordance with the requirements of the new rules of Chapter 17.

At 31 March 2004 and 30 September 2004, no share options were outstanding under the Chinese People Scheme and none of Chinese People's directors or Chinese People Group's employees were granted share options during the period.

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

At 30 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which he would be deemed or taken to have under Section 344 and 345 of the SFO) or 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	Nature of interest	Number of shares	Percentage of the Company's issued share capital
Mr. Tjia Boen Sien	Interest by attribution (Note)	2,362,500,000	45.72%
	Beneficial Owner	351,124,000	6.79%
Mr. Wang Jing Ning	Interest by attribution (Note)	2,362,500,000	45.72%
	Beneficial Owner	18,396,000	0.36%
Mr. Wang Ke Duan	Beneficial Owner	2,689,600	0.05%
Mr. Siu Man Po	Beneficial Owner	1,800,000	0.03%

*Note:* 2,362,500,000 shares are held by Sparta Assets, a company which is owned as to 90% by Mr. Tjia Boen Sien and 10% by Mr. Wang Jing Ning.

The interests of the directors in the share options of the Company are separately disclosed in "Share Option Scheme" section above.

Save as disclosed above, none of the directors 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in "Share Option Scheme" section above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of 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 subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 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:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Sparta Assets Limited	Directly beneficially owned	2,362,500,000	45.72%
Mr. Tjia Boen Sien	Through a controlled corporation (Note)	2,362,500,000	45.72%
	Directly beneficially owned	351,124,000	6.79%
Mr. Wang Jing Ning	Through a controlled corporation (Note)	2,362,500,000	45.72%
	Directly beneficially owned	18,396,000	0.36%
Okabe Co. Ltd.	Directly beneficially owned	<u>281,250,000</u>	<u>5.44%</u>

*Note:* 2,362,500,000 shares are held by Sparta Assets, a company which is owned as to 90% by Mr. Tjia Boen Sien and 10% by Mr. Wang Jing Ning.

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 and underlying shares" above, at 30 September 2004, had registered an interest or short position in the shares of the Company that was required to be recorded under pursuant to Section 336 of the SFO.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period, the Company repurchased certain of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company, accordingly the issued share capital was decreased by the nominal value of these shares. The premium payable on repurchase was charged against the share premium account. The Company considered that it is the best way of enhancing shareholder value and that it is in the best interest of the shareholders to return a substantial part of the surplus funds to them.

Month of purchase	Number of ordinary share	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
May 2004	29,300,000	0.042	0.040	1,204
August 2004	88,420,000	0.040	0.038	3,462
September 2004	60,000,000	0.041	0.040	2,424
Total	<u>177,720,000</u>			<u>7,090</u>

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 September 2004.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Listing Rules of the Stock Exchange, for any part of the accounting period covered by the interim report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company’s bye-laws.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors on terms no less exactly than the required standard set out in the Model Code. Having made specific enquiry of the Directors, none of the Directors has not complied with, for any part of the accounting period under review, the required standard set out in the Model Code and its code of conduct regarding directors securities transactions.

## BOARD OF DIRECTORS

As at the date of this report, the executive Directors of the Company are Mr. Wang Ke Duan, Mr. Tjia Boen Sien, Mr. Wang Jing Ning, Mr. Keung Kwok Cheung and Mr. Kong Kwok Fai, and the independent non-executive Directors are Dr. Ho Chung Tai, Raymond, Mr. Siu Man Po, Ms. Wong Sin Yee and Mr. Wong Shing Kay, Oliver.

By Order of the Board

**Tjia Boen Sien**

*Managing Director and Deputy Chairman*

Hong Kong, 20 December 2004.