



Guo Xin Group Limited

Interim Report 2004

(For the six months ended 31st December 2004)





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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Zhang Yang (*Chairman*)
Mr. Lam Cheung Shing, Richard

Independent Non-Executive Directors

Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

AUDIT COMMITTEE

Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

REMUNERATION COMMITTEE

Mr. Lam Cheung Shing, Richard
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward

COMPANY SECRETARY

Mr. Lam Cheung Shing, Richard

HEAD OFFICE AND PRINCIPAL PLACE

12/F, Place 18
18 Cheong Lok Street
Jordon,
Kowloon,
Hong Kong

PRINCIPAL BANKERS

International Bank of Asia Limited
The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Preston Gates & Ellis
To, Lam & Co.

SHARE REGISTRARS

Tengis Limited
G/F, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda



The board of directors (the "Board") of Guo Xin Group Limited (the "Company") is pleased to announce the unaudited condensed results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2004 together with comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2004

| | Notes | For the six months ended 31 December | |
|--|-------|---|---------------------------------|
| | | 2004 HK\$'000 (Unaudited) | 2003 HK\$'000 (Unaudited) |
| Turnover | 4 | 4,147 | 133,617 |
| Cost of sales | | (354) | (127,052) |
| Gross profit | | 3,793 | 6,565 |
| Other operating income | | 100 | 797 |
| Gain/(Loss) on disposal of investments in securities | | 987 | (2,346) |
| Administrative expenses | | (7,586) | (9,809) |
| Loss from operations | 5 | (2,706) | (4,793) |
| Finance costs | | (321) | (3,170) |
| Loss before taxation | | (3,027) | (7,963) |
| Taxation | 6 | – | – |
| Loss before minority interests | | (3,027) | (7,963) |
| Minority interests | | – | 471 |
| Net loss for the period | | (3,027) | (7,492) |
| Loss per share | | | |
| Basic | 7 | HK(0.079) cents | HK(0.2) cents |

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 31 December 2004

| | Notes | 31 December 2004 HK\$'000 (Unaudited) | 30 June 2004 HK\$'000 (Audited) |
|------------------------------------|-------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 1,015 | 1,342 |
| Investment properties | 9 | 309,099 | 278,858 |
| Investment securities | 10 | – | – |
| | | 310,114 | 280,200 |
| Current assets | | | |
| Accounts receivable | 11 | 2,928 | 27,002 |
| Deposit for investment | 12 | 50,000 | – |
| Deposit for acquisition of land | 13 | 65,397 | – |
| Prepayments and other receivables | 14 | 135,382 | 115,512 |
| Investments in securities | | – | 18,009 |
| Bank balances and cash | | 5,520 | 642 |
| | | 259,227 | 161,165 |
| Current liabilities | | | |
| Accounts payable | | 5 | – |
| Other payables and accrued charges | | 2,132 | 4,678 |
| Amount due to a related company | 15 | 73,697 | 2,463 |
| Bank loans, secured | 16 | 141,509 | 167,699 |
| | | 217,343 | 174,840 |
| Net current assets (liabilities) | | 41,884 | (13,675) |
| | | 351,998 | 266,525 |
| Capital and reserves | | | |
| Share capital | | 448,468 | 374,718 |
| Reserves | | (105,135) | (116,858) |
| | | 343,333 | 257,860 |
| Minority interests | | – | – |
| Non-current liability | | | |
| Deferred taxation | | 8,665 | 8,665 |
| | | 351,998 | 266,525 |



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2004

| | Share capital HK\$'000 | Share premium HK\$'000 | Investment property revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|------------------------------|------------------------------|--|------------------------------------|-----------------------------------|-------------------|
| At 1 July 2003 | 374,718 | 117,480 | 10,900 | 157 | (244,906) | 258,349 |
| Surplus arising on revaluation | - | - | 9,990 | - | - | 9,990 |
| Deferred tax arising on revaluation of investment properties charged to reserve | - | - | (3,297) | - | - | (3,297) |
| Net loss for the year | - | - | - | - | (7,182) | (7,182) |
| At 30 June 2004 | 374,718 | 117,480 | 17,593 | 157 | (252,088) | 257,860 |
| Issue of shares | 73,750 | 14,750 | - | - | - | 88,500 |
| Net loss for the period | - | - | - | - | (3,027) | (3,027) |
| At 31 December 2004 | 448,468 | 132,230 | 17,593 | 157 | (255,115) | 343,333 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2004

| | For the six months ended 31 December | |
|--|---|---------------------------------|
| | 2004 HK\$'000 (Unaudited) | 2003 HK\$'000 (Unaudited) |
| Net cash used in operating activities | (5,375) | (32,118) |
| Net cash used in investing activities | (115,397) | (19,503) |
| Net cash from financing activities | 125,650 | 34,941 |
| Increase (Decrease) in cash and cash equivalents | 4,878 | (16,680) |
| Cash and cash equivalents at the beginning of the period | 642 | 20,747 |
| Cash and cash equivalents at the end of the period | 5,520 | 4,067 |

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS***For the six months ended 31 December 2004***1. BASIS OF PREPARATION**

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2004.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not yet adopted these new HKFRSs in the financial statements for the six months ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. SEGMENT INFORMATION

The Group is currently engaged in three operating divisions, namely trade related operations, travel related operations and property investments. These divisions are the basis on which the Group reports its primary segment information.

Business segments

| | Trade related operations | | Travel related operations | | Property investments | | Consolidated | |
|--|--------------------------|----------------|---------------------------|-------------|----------------------|--------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment turnover | <u>0</u> | <u>131,500</u> | <u>373</u> | <u>419</u> | <u>3,774</u> | <u>1,698</u> | <u>4,147</u> | <u>133,617</u> |
| Segment results | <u>(914)</u> | <u>1,716</u> | <u>(1)</u> | <u>(14)</u> | <u>3,761</u> | <u>1,647</u> | <u>2,846</u> | <u>3,349</u> |
| Unallocated corporate expenses | | | | | | | <u>(6,539)</u> | <u>(5,796)</u> |
| Gain/(Loss) on disposal of investments in securities | | | | | | | <u>987</u> | <u>(2,346)</u> |
| Loss from operations | | | | | | | <u>(2,706)</u> | <u>(4,793)</u> |
| Finance costs | | | | | | | <u>(321)</u> | <u>(3,170)</u> |
| Loss before taxation | | | | | | | <u>(3,027)</u> | <u>(7,963)</u> |
| Taxation | | | | | | | <u>-</u> | <u>-</u> |
| Loss before minority interests | | | | | | | <u>(3,027)</u> | <u>(7,963)</u> |
| Minority interests | | | | | | | <u>-</u> | <u>471</u> |
| Net loss for the period | | | | | | | <u>(3,027)</u> | <u>(7,492)</u> |



5. LOSS FROM OPERATIONS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-------------------|-------------------|
| Loss from operations has been arrived at after charging (crediting): | | |
| Depreciation included in administrative expenses | 239 | 358 |
| Amortisation of goodwill included in administration expenses | - | 10 |
| Interest income | - | (458) |
| | <u> </u> | <u> </u> |

6. TAXATION

No provision for profits tax has been made in financial statements as the Group had no assessable profit for the period.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

| | Six months ended 31 December | |
|--|--------------------------------------|--------------------------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Loss for the purpose of basis loss per share | <u>(3,027)</u> | <u>(7,492)</u> |
| | Number of shares '000 | Number of shares '000 |
| Weighted average number of ordinary shares for the purpose of basis loss per share | <u>3,808,641</u> | <u>3,747,183</u> |

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group has written off plant and equipment of value approximately HK\$557,000 and there were no significant movements.

9. INVESTMENT PROPERTIES

The Group's investment properties are revalued at 30 June 2004 by Shanghai Real Estate Appraisers Co., Ltd. on an open market basis. During the period, the Group incurred approximately HK\$30,241,000 on renovation and modernization of the investment properties.

The Group has pledged certain of its investment properties to secure general banking facilities granted to the Group.

The Group's investment properties are situated in the People's Republic of China (the "PRC") and are held under medium-term leases.

10. INVESTMENT SECURITIES

| | 31 December 2004 HK\$'000 | 30 June 2004 HK\$'000 |
|---|---------------------------------|-----------------------------|
| Unlisted investment in Hong Kong, at cost | 650 | 650 |
| Impairment loss recognized | (650) | (650) |
| | <u> </u> | <u> </u> |
| | - | - |

**11. ACCOUNTS RECEIVABLE**

The Group allows an average credit period of 30 days to its trade customers. The aged analysis of accounts receivable is:

| | 31 December 2004 HK\$'000 | 30 June 2004 HK\$'000 |
|--------------|--|-----------------------------|
| 1-30 days | 986 | 989 |
| 31-60 days | 948 | 22,218 |
| 61-90 days | 949 | 943 |
| Over 90 days | 45 | 2,852 |
| | <u>2,928</u> | <u>27,002</u> |

12. DEPOSIT FOR INVESTMENT

The amount represents the deposit paid by Charter Best Investments Limited (the "Purchaser"), a wholly owned subsidiary of the Company to acquire 60% equity interest of the issued share capital of Gainnew Group Limited ("Gainnew") pursuant to the sale and purchase agreement dated 16 December 2004 entered into between the vendor, Mr. Benny Ki, and the Purchaser (the "Acquisition"). The Acquisition was approved by the shareholders on the special general meeting (the "SGM") dated 23 February 2005. Details for the Acquisition are set out in the Circular dated 4 February 2005.

13. DEPOSIT FOR ACQUISITION OF LAND

The amount represents the deposit paid for acquisition of a land of approximately 4,902 square meters situated at No. 10 Heng Fung Lu, Guang Fu Xi Lu Kou, Zha Bei District, Shanghai. The acquisition will be completed with the final payment made in March 2005. Details for the acquisition are set out in the Circular dated 6 September 2004.

14. PREPAYMENTS AND OTHER RECEIVABLES

Included in prepayments and other receivables is an amount of trade deposit of RMB122,850,000 which was paid by a wholly owned subsidiary in the PRC (the "Subsidiary") to a supplier for the purchase of rubber. Subsequent to the period, the Subsidiary had exercised a put option stipulated in the sale and purchase agreement to put back all the supplied rubber to the suppliers at original cost and the deposit was fully repaid to the Subsidiary.

15. AMOUNT DUE TO A RELATED COMPANY

The amount represents advance from Sourcebase Developments Limited, in which Mr. Zhang Yang, a director of the Company, has a beneficial interest, is unsecured, non-interest bearing and has no fixed terms of repayment.

16. BANK LOAN, SECURED

The amount bears interest at prevailing market rate, repayable within one year and is secured by the Group's investment properties.

17. OPERATING LEASE COMMITMENTS**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payment totalling HK\$3,364,000 (at 30 June 2004: HK\$595,000) in respect of office premises.

Leases are mainly negotiated for an average term of five years and monthly rentals are fixed over the term of the leases.

| | 31 December 2004 HK\$'000 | 30 June 2004 HK\$'000 |
|-------------------|--|-----------------------------|
| Within one year | 696 | 595 |
| Two to five years | 2,668 | - |
| | <u>3,364</u> | <u>595</u> |



17. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned during the period was HK\$3,774,000 (2003: HK\$1,698,000).

At the balance sheet date, the Group had contracted with tenants for future minimum lease payment of approximately HK\$13,585,000 (2003: HK\$5,770,000).

| | 31 December 2004 HK\$'000 | 30 June 2004 HK\$'000 |
|-----------------|--|-----------------------------|
| Within one year | <u>13,585</u> | <u>5,770</u> |
| | 13,585 | 5,770 |

The lease is negotiated for an average term of one year.

18. RELATED PARTY TRANSACTIONS

Apart from the amount due to a related company disclosed in the balance sheet, the Group entered into the following related party transactions.

| | Related companies in which Mr. Zhang Yang is the controlling shareholder | |
|--|---|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Service income from the travel agency business | <u>291</u> | <u>356</u> |

19. POST BALANCE SHEET EVENTS

Pursuant to the resolution passed by the shareholders on a SGM held on 23 February 2005, the Company issued a convertible note with principal amount of HK\$46,000,000 as partial settlement for the sale and purchase agreement dated 16 December 2004. Details of the sale and purchase agreement are set out in the Circular dated 4 February 2005.

The convertible note is due in 2008, with a conversion price of HK\$0.162, bearing an interest of 5 per cent per annum payable on semi-annually basis.



INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 31 December 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the six months ended 31 December 2004 (the "Current Period") amounted to HK\$4,147,000 (2003: HK\$133,617,000), representing a decrease of 96.9% as compared with corresponding period last year. Loss attributable to shareholders amounted to HK\$3,027,000 (2003: HK\$7,492,000), representing a decrease of 59.6% from corresponding period last year. This is mainly due to the higher profit generated from property leasing as compared with last year.

As at 31 December 2004, the total assets and net assets of the Group were HK\$569,341,000 (30 June 2004: HK\$441,365,000) and HK\$343,333,000 (30 June 2004: HK\$257,860,000) respectively, representing an increase of 29.0% and 33.1% respectively as compared with 30 June 2004.

As at 31 December 2004, the Group had cash and deposits in banks totaling approximately HK\$5,520,000 (30 June 2004: HK\$642,000), representing an increase of HK\$4,878,000 compared with that as at 30 June 2004. The Group's net current assets were HK\$41,884,000 (net current liabilities as at 30 June 2004: HK\$13,675,000), representing an increase of HK\$55,559,000 as compared with that as at 30 June 2004.

As at 31 December 2004, the Group's outstanding bank borrowings amounted to HK\$141,509,000 (30 June 2004: HK\$167,699,000), all repayable within one year. The gearing ratio (total borrowings/total assets) was 24.9%.

As the Group's business are mainly conducted in the PRC and Hong Kong, and there was no significant fluctuation in the exchange rate of Renminbi against Hong Kong Dollar during the Current Period, the Group did not have any material risk in foreign exchange fluctuation and there was no corresponding provision made for hedging. Neither did the Group use any financial instruments for hedging purposes, nor used any instruments for hedging against foreign currency investments.

BUSINESS REVIEW AND PROSPECTS

Travel Related Operations

During the Current Period, the Group's travel-related property investment continued to generate stable revenues. The high-end property held by the Group in Yangpu District, Shanghai has leased as a self-operated serviced apartments. As the economy of Shanghai continued to grow during the Current Period, the Group's rental income posted a dramatic increase and generated a revenue of HK\$3,774,000 (2003: HK\$1,698,000), representing an increase of 122.3%.

In addition, during the Current Period, the Group's travel related operations recorded a turnover of HK\$373,000 (2004: HK\$419,000), representing a decrease of 11.0% as compared with corresponding period last year. The main reason was instead of travelling overseas to attend meetings, some business clients changed to using video conferences, which shrunk the demand for air tickets and hotel accommodation. However, as China's Individual Traveler Scheme continues to expand, the Group expect that the loss of business travelers will be compensated.



The Hong Kong tourism industry has continued to boom. According to the statistics published by the Hong Kong Tourism Board, in 2004 the number of Mainland visitor arrivals to Hong Kong reached 12,245,862, representing an increase of 44.6% when compared with 2003. Local hotels also recorded an occupancy rate of 88%, a record high since 1996. It is expected that the development of the Group's travel related operations will see a further boost with the grand opening of the Hong Kong Disneyland in September this year.

To enhance its service quality to better meet market demand, the Group invested RMB32,000,000 in renovating and modernising its service apartments. The project had been completed and is expected to enhance the investment returns of the Group.

In August 2004, the Group acquired a piece of land of 4,902 square metres in Zha Bei District, Shanghai, as reserve for a long term investment. The Group plans to build service apartments or develop a hotel on the site either on its own or with potential investors. Such development is in line with the objective of providing comprehensive travel services of the Group's travel related operations.

To expand its revenue sources, the Group entered into an agreement to acquire 60% share of Gainnew through Charter Best Investments Limited (a wholly-owned subsidiary of the Group) at a consideration of HK\$96,000,000 on 16 December 2004. Gainnew is principally engaged in conducting promotion campaigns, generating sales leads and providing billing services for the cruise liner Omar III. In return for providing such services, Gainnew receives service fees in proportion to the gaming revenues generated by Omar III. The Group believes the acquisition of Gainnew will help to enhance the revenue base of its travel related operations and bring in a steady source of revenues, thereby improving the Group's liquidity and overall financial performance.

With the further relaxation of restrictions on Mainland's visitors to Hong Kong and Macau and the on-going implementation of the "Mainland/Hong Kong Closer Economic Partnership Arrangement", the tourism and gaming activities in the region are expected to thrive. The Group believes Gainnew will bring more business opportunities to the Group, allowing it to enhance returns to shareholders.

The Group believes the demand for hotel accommodation in Hong Kong and China will continue to climb, which will in turn to fuel the growth of the Group's travel related operations. In view of this, the Group will continue to deploy resources into diversifying its travel business so as to attract more customers and benefit from a stable and considerable revenue stream.

Given its established business foundation, as well as its acute business vision and solid operational strengths, the Group is confident that it will successfully attain its operation goal of business expansion. In particular, the Group believes tourism and gaming entertainment businesses have strong growth potential in Hong Kong and Macau. Therefore, the group intends to allocate more resources for related investments. It will also step up its efforts in developing its trade and travel related operations and actively look into any merger and acquisition opportunities so as to deliver better investment returns to the shareholders.

Trade Related Operations

During the Current Period, the Group did not enter into any trade agreement. As a result, its trade related operations did not record any turnover (2004: HK\$131,500,000). Several trade agreements, however, are currently under negotiation.

The relationship between the PRC and Hong Kong has been tightening warranty talks on several major infrastructure projects including that on the set to be endorsed Hong Kong-Zhuhai-Macau Bridge. These projects are expected to translate into more business opportunities for the Group's trade operations. The Group will continue to seek new business partners so as to prepare itself for entering the massive PRC market.



Liquidity and Financial Resources

The Group's financial resources are mainly derived from cash flows generated from operating activities. As at 31 December 2004, the Group's cash on hand and deposits in banks totaled approximately HK\$5,520,000 (30 June 2004: HK\$642,000), comprising Hong Kong dollar deposits of approximately HK\$4,835,000 and Renminbi deposits of approximately RMB726,000.

As at 31 December 2004, the Group's bank borrowings were RMB150,000,000, equivalent to approximately HK\$141,509,000 (30 June 2004: HK\$167,699,000). The Renminbi loan bears interest at fixed rates. All borrowings were secured by the Group's investment properties.

Contingent Liabilities

As at 31 December 2004, the Group did not have any material contingent liabilities.

Pledge on the Group's Assets

As at 31 December 2004, the Group's bank borrowings were secured by its investment properties with a carrying value of HK\$241,169,000.

Employment Remuneration Policy

As at 31 December 2004, the Group had a total of 14 employees in the PRC and Hong Kong. The staff costs for the year amounted to HK\$4,064,000 (2003: HK\$4,903,000). In order to maintain the competitiveness of the Group's remuneration package, the salary and bonus of the staff are based on their individual performance.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2004, the interests and the short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies (the "Model Code"), were as follows:

Long Positions in the Company's Shares

| Name of director | Capacity | Number of shares held as corporate interests | Percentage of the issued share capital of the Company |
|------------------|------------------|---|---|
| Mr. Zhang Yang | Corporate (Note) | 750,000,000 | 16.72% |

Note: These shares are held by Sourcebase Developments Limited, a company beneficially owned by Mr. Zhang Yang.



Share Option Scheme

The Company has an executive share option scheme adopted on 17 April 2002 under which executive directors and employees of the Company or any of its subsidiaries may be granted options to subscribe for shares in the Company.

As at 31 December 2004, none of the Directors of the Company hold any of the share options.

Saved as disclosed above, as at 31 December 2004, none of the Directors, chief executives and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company and 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 required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the interests of the substantial shareholders, other than the Directors, chief executives and their respective associates, 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:

Long positions – ordinary shares of HK\$0.1 each of the Company

| Name | Capacity | Number of shares | Percentage of holding |
|---------------------------------|-----------|----------------------|-----------------------|
| Sourcebase Developments Limited | Corporate | 750,000,000 (Note 1) | 16.72% |
| Mr. Benny Ki | Personal | 453,950,617 (Note 2) | 10.12% |
| Mr. Yan Li Yan | Personal | 423,120,000 | 9.43% |

Note:

- By virtue of the SFO, Mr. Zhang Yang is deemed to be interested in the 750,000,000 share of the Company held by Sourcebase Developments Limited. Details are disclosed in "Directors' Interests in Shares - Long Positions in the Company Shares" above.
- These shares comprise of (i) 170,000,000 Shares beneficially owned by Mr. Benny Ki; and (ii) 283,950,617 Conversion Shares to be allotted and issued to Mr. Benny Ki upon the exercise in full of the conversion rights attached to the Convertible Note at the exercise price of HK\$0.162 per Shares.

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 31 December 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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



AUDIT COMMITTEE

The Audit Committee comprises of three independent non-executive directors of Mr. Tam Sun Wing; Mr. Ko Ming Tung, Edward; and Mr. Ng Ge Bun. The Audit Committee has reviewed the interim report of the Group for the period. The Audit Committee has held regular meeting since its formation, at a frequency of at least twice a year.

REMUNERATION COMMITTEE

The Board approved the formation of Remuneration Committee on 21 March 2005. The Remuneration Committee comprises of one executive director of Mr. Lam Cheung Shing, Richard; and two independent non-executive directors of Mr. Tam Sun Wing and Mr. Ko Ming Tung, Edward.

CODE OF BEST PRACTICE

The Company has complied throughout the period ended 31 December 2004 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by Directors. The Company, after having made specific enquiries to all Directors, confirmed that all Directors were in compliance with the requirements set out in the Model Code during the period ended 31 December 2004.

By order of the Board

Zhang Yang

Chairman

Hong Kong, 21 March 2005