

# 2005 Interim Report



**HUAFENG**  
華豐

HUAFENG TEXTILE INTERNATIONAL GROUP LIMITED  
華豐紡織國際集團有限公司

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Cai Zhen Rong (*Chairman*)

Mr. Cai Zhen Yao

Mr. Cai Zhen Ying

Mr. Cai Yang Bo

Mr. Choi Wing Toon

Mr. Mak Shiu Chung, Godfrey

#### Independent Non-Executive Directors

Ms. Choy So Yuk

Mr. Lawrence Gonzaga

Mr. Wong Siu Hong

### AUDIT COMMITTEE

Ms. Choy So Yuk

Mr. Lawrence Gonzaga

Mr. Wong Siu Hong

### COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Li Mow Ming, Sonny *FCCA, CPA (Aust)*

### REGISTERED OFFICE

Century Yard, Cricket Square

Hutchins Drive, P.O. Box 2681 GT

George Town, Grand Cayman

Cayman Islands

British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2901

Shun Tak Centre, West Tower

200 Connaught Road Central

Hong Kong

### REGISTRARS

#### Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited

36C Bermuda House, 3rd Floor

P.O. Box 513 GT

Dr. Roy's Drive, George Town

Grand Cayman, Cayman Islands

British West Indies

#### Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited

G/F

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

### STOCK CODE

364

## INTERIM RESULTS

The board of directors (the “Board”) of Huafeng Textile International Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 March 2005 (the “Period”). The interim results for the Period are unaudited, but have been reviewed by the audit committee of the Company (the “Audit Committee”).

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the six months ended 31 March 2005*

	Notes	Six months ended 31 March 2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
<b>TURNOVER</b>	2	<b>263,265</b>	176,099
Cost of services provided and cost of sales		<b>(192,422)</b>	(104,854)
Gross profit		<b>70,843</b>	71,245
Other revenue		<b>2,870</b>	578
Selling and distribution expenses		<b>(8,457)</b>	(6,967)
Administrative expenses		<b>(13,803)</b>	(9,457)
Other operating expenses		<b>(1,594)</b>	(1,080)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	3	<b>49,859</b>	54,319
Finance costs	4	<b>(5,120)</b>	(2,703)
<b>PROFIT BEFORE TAXATION</b>		<b>44,739</b>	51,616
Taxation	5	<b>(766)</b>	(998)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>43,973</b>	50,618
Minority interests		<b>289</b>	(2)
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>44,262</b>	50,616
<b>EARNINGS PER SHARE</b>			
Basic	7	<b>HK5.7 cents</b>	HK6.6 cents
Diluted		<b>HK5.7 cents</b>	HK6.2 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

At 31 March 2005

	Notes	31 March 2005 (Unaudited) HK\$'000	30 September 2004 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		435,694	419,755
Goodwill		11,616	12,907
Investment securities		1,184	425
Deposits paid for acquisition of long-term assets		16,056	23,284
		<u>464,550</u>	<u>456,371</u>
<b>CURRENT ASSETS</b>			
Inventories		64,461	40,628
Trade receivables	8	129,851	89,920
Prepayments, deposits and other receivables		47,482	44,045
Cash and bank balances		65,461	30,501
		<u>307,255</u>	<u>205,094</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	9	51,373	35,307
Other payables and accruals		33,144	22,457
Interest-bearing borrowings		126,226	112,835
Provision for taxation		797	545
		<u>211,540</u>	<u>171,144</u>
<b>NET CURRENT ASSETS</b>		<u>95,715</u>	<u>33,950</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>560,265</u>	<u>490,321</u>

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 31 March 2005

		<b>31 March 2005 (Unaudited) HK\$'000</b>	30 September 2004 (Audited) HK\$'000
	Notes		
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing borrowings		<b>70,000</b>	35,750
Deferred taxation		<b>18,317</b>	18,851
		<b>88,317</b>	54,601
<b>MINORITY INTERESTS</b>			
		<b>11,373</b>	11,662
<b>NET ASSETS</b>			
		<b>460,575</b>	424,058
<b>CAPITAL AND RESERVES</b>			
Share capital	10	<b>7,745</b>	7,745
Reserves		<b>444,311</b>	408,568
Proposed dividend	6	<b>8,519</b>	7,745
		<b>460,575</b>	424,058

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2005

	Share Capital HK\$'000	Share premium HK\$'000	Reserves		Total HK\$'000
			Fixed assets revaluation reserve HK\$'000	Retained profits HK\$'000	
At 1 October 2003					
- as previously reported	7,716	133,304	26,649	210,243	377,912
- prior period adjustments in respect of deferred taxation	-	-	(7,384)	397	(6,987)
- as restated	7,716	133,304	19,265	210,640	370,925
Share issued on					
exercise of warrants	20	1,241	-	-	1,261
Net profit for the period	-	-	-	50,616	50,616
Dividends paid	-	-	-	(17,368)	(17,368)
At 31 March 2004 (Unaudited)	<u>7,736</u>	<u>134,545</u>	<u>19,265</u>	<u>243,888</u>	<u>405,434</u>
Representing:					
At 31 March 2004 after					
proposed interim dividend					393,055
Proposed interim dividend					<u>12,379</u>
Shareholders' funds					<u>405,434</u>
At 1 October 2004	7,745	135,122	33,413	247,778	424,058
Net profit for the period	-	-	-	44,262	44,262
Dividends paid	-	-	-	(7,745)	(7,745)
At 31 March 2005 (Unaudited)	<u>7,745</u>	<u>135,122</u>	<u>33,413</u>	<u>284,295</u>	<u>460,575</u>
Representing:					
At 31 March 2005 after					
proposed interim dividend					452,056
Proposed interim dividend					<u>8,519</u>
Shareholders' funds					<u>460,575</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 March 2005

	Six months ended 31 March	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	25,083	(27,187)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(24,899)	(74,553)
NET CASH INFLOW FROM FINANCING ACTIVITIES	34,776	58,825
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	34,960	(42,915)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,501	114,537
CASH AND CASH EQUIVALENTS AT END OF PERIOD	65,461	71,622
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and bank balances	65,461	71,622



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31 March 2005*

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 30 September 2004.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2004.

In 2004, the HKICPA has issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “new HKFRSs”) which are effective for the accounting periods on or after 1 January 2005. The Group has not early adopted these new HKFRSs in these interim financial statements. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in the position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 2. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by geographical segment; and
- (ii) on a secondary segment reporting basis, by business segment.

The principal activities of the Group are the provision of fabrics processing services, manufacture and sale of fabrics, and manufacture and sale of yarns, which are managed according to the geographical location of customers.

(a) Geographical segments based on the location of customers

	The Philippines		Greater China		Africa, Australia and North America		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	106,584	110,884	130,819	33,773	25,862	31,442	263,265	176,099
Segment results	36,587	38,238	5,631	7,388	9,455	13,080	51,673	58,706
Unallocated revenue							2,870	578
Unallocated expenses							(4,684)	(4,965)
Profit from operating activities							49,859	54,319
Finance costs							(5,120)	(2,703)
Profit before taxation							44,739	51,616
Taxation							(766)	(998)
Profit before minority interests							43,973	50,618
Minority interests							289	(2)
Net profit attributable to shareholders							44,262	50,616

(b) Business segments

	Fabrics processing services, manufacture and sale of fabrics		Manufacture and sale of yarns		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	221,113	176,099	42,152	-	-	-	263,265	176,099
Intersegment sales	-	-	1,902	-	(1,902)	-	-	-
Total revenue	221,113	176,099	44,054	-	(1,902)	-	263,265	176,099

### 3. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 31 March	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Amortisation of goodwill	1,291	-
Depreciation	15,438	8,053

### 4. FINANCE COSTS

	Six months ended 31 March	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	3,557	1,802
Bank charges	1,563	901
	5,120	2,703

### 5. TAXATION

	Six months ended 31 March	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Elsewhere in the People's Republic of China ("PRC")		
- current	1,300	1,202
- deferred	(534)	(204)
Tax charge for the period	766	998

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the Period (2004: Nil).

Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

## 6. DIVIDEND

The Board has declared an interim dividend of HK1.1 cent per share for the six months ended 31 March 2005 (2004: HK1.6 cent) to all shareholders whose names appear on the register of members of the Company on 29 July 2005.

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the Period is based on the Group's net profit attributable to shareholders for the Period of approximately HK\$44,262,000 (2004: HK\$50,616,000) and the weighted average number of 774,452,000 (2004: 772,019,650) ordinary shares in issue during the Period.

The calculation of diluted earnings per share for the Period is based on the Group's net profit attributable to shareholders for the Period of approximately HK\$44,262,000 (2004: HK\$50,616,000) and on 780,479,356 (2004: 814,841,429) ordinary shares, being the weighted average number of 774,452,000 (2004: 772,019,650) ordinary shares in issue during the Period, as used in the basic earnings per share calculation, plus the weighted average number of 6,027,356 (2004: 42,821,779) ordinary shares assumed to have been issued at HK\$0.65 per share on the deemed exercise of all warrants outstanding during the Period.

## 8. TRADE RECEIVABLES

The Group normally allows credit terms to well-established customers ranging from 30 to 120 days. Full provision is made for outstanding debts aged over one year.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the service income or goods sold, is as follows:

	<b>31 March 2005 (Unaudited) HK\$'000</b>	30 September 2004 (Audited) HK\$'000
0 – 30 days	<b>52,659</b>	25,714
31 – 60 days	<b>45,465</b>	23,114
61 – 90 days	<b>19,174</b>	23,362
Over 90 days	<b>12,553</b>	17,730
	<b>129,851</b>	89,920

## 9. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of consumables or goods purchased, is as follows:

	<b>31 March 2005 (Unaudited) HK\$'000</b>	30 September 2004 (Audited) HK\$'000
0 – 30 days	23,218	11,293
31 – 60 days	15,366	10,020
61 – 90 days	7,562	7,785
Over 90 days	5,227	6,209
	<u>51,373</u>	<u>35,307</u>

## 10. SHARE CAPITAL

	<b>31 March 2005 (Unaudited) HK\$'000</b>	30 September 2004 (Audited) HK\$'000
Authorised: 2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
Issued and fully paid: 774,452,000 (2004: 774,452,000) ordinary shares of HK\$0.01 each	<u>7,745</u>	<u>7,745</u>

## 11. CONTINGENT LIABILITIES

At 31 March 2005, the Group did not have any significant contingent liabilities (30 September 2004: Nil).

At 31 March 2005, the Company had provided corporate guarantee to the extent of HK\$15,000,000 (30 September 2004: HK\$50,000,000) for banking facilities granted to a subsidiary, which were utilised to the extent of HK\$15,000,000 (30 September 2004: HK\$50,000,000).

## 12. COMMITMENTS

At 31 March 2005, the Group had the following capital commitments:

	<b>31 March 2005 (Unaudited) HK\$'000</b>	30 September 2004 (Audited) HK\$'000
Authorised but not contracted for		
Purchases of leasehold land	<b>13,094</b>	6,904
Contracted for but not provided for		
Construction of leasehold land and buildings	<b>2,453</b>	3,868
Purchases of plant and machinery	<b>382</b>	2,896
Non-current investments	<b>91,957</b>	91,957
	<b>107,886</b>	105,625

## 13. RELATED PARTY TRANSACTIONS

During the Period, the Group paid rentals of approximately HK\$377,000 (2004: HK\$63,000) to the minority shareholder of a subsidiary, Shenyang Huafeng Dyeing & Printing Co., Ltd. ("Shenyang Huafeng"), in respect of Shenyang Hyafeng's factory premises. The opinion of the Board is that the above transactions with related party were conducted on normal commercial terms in the ordinary course of the Group's business.

## 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of current Period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group's turnover during the Period surged 49% to approximately HK\$263 million as compared to the corresponding period last year. Net profit attributable to shareholders was approximately HK\$44 million, representing a decrease of 13% over the same period last year. The strong growth in turnover was mainly driven by the continuous expansion of the fabric processing production capacity and the establishment of two yarn spinning plants in March 2004; while the decrease in profit was attributable to the recent capital investments on new manufacturing plants where contributions are not yet realized, concurrently, the upsurge in production costs such as rising coal prices and labour cost also reduced the profit to a further extent.

During the Period under review, the gross profit margin of the Group decreased from approximately 40% for the six months ended 31 March 2004 to approximately 27% for the six months ended 31 March 2005. The substantial decrease in gross profit margin was mainly due to the upsurge in production costs as mentioned above and the new business operation in manufacture and sale of yarns, which bears a comparatively lower gross profit margin than the fabric processing services.

### BUSINESS REVIEW

#### **Fabric processing services, manufacture and sale of fabrics**

The Group continued to build on its core businesses in fabric processing services and the manufacture & sale of fabrics, which accounted for approximately 84% of the Group's aggregate turnover for the six months ended 31 March 2005. During the Period under review, turnover from fabric processing services and the manufacture & sale of fabrics reached approximately HK\$221 million, representing a growth of approximately 26% over the comparable period last year. The substantial growth in turnover from this segment was a result of strong contributions from Lingfeng Dyeing & Weaving Co., Ltd., which the Group acquired in September 2004. However, the increase in production costs coupled with suppressing prices adversely affected the result of this segment.

## Manufacture and sale of yarns

The Group launched two major yarn spinning operations in March 2004. As the international cotton prices began to stabilize, we saw a more favourable operating environment for the segment of manufacture and sale of yarns when compared with the previous six months ended 30 September 2004. Turnover for the Period grew to approximately HK\$44 million; representing an increase of approximately 10% over the previous six months ended 30 September 2004. With the improved operating environment and the higher rate of utilisation, this segment has begun to gain momentum, achieving a remarkable turnaround from a loss to its break-even stage.

## Geographical analysis of the Group's turnover

During the Period under review, there was a significant change in the segmentation of the Group's turnover in terms of geographical region of customers. Sales to customers located in the Greater China substantially increased from approximately HK\$34 million for the six months ended 31 March 2004 to approximately HK\$131 million for the Period, and accounted for approximately 50% of the Group's turnover. The substantial increase was mainly due to the new business segment of manufacture and sale of yarns, which were all sold to customers in the PRC; and the extended sales networks in the PRC also boosted the overall turnover in the region.

The Philippines markets remained stable, slightly dropped by 4% compared to the corresponding period last year and accounted for approximately 40% of the Group's turnover. Customers from Africa, Australia and North America contributed to the remaining 10%.

The overall drop in segment results contributions was mainly due to the upsurge in production costs and lower profit margin pricing structure.



## PROSPECTS

Shortly after the phase-out of worldwide textile quotas on 1 January 2005, the United States initiated to re-impose quotas on certain textile products from China, dampening the prospects for quota-free access. Principally engages in the fabric processing services, the Group has no direct involvement in the garment export business, thus the possible reintroduction of export quotas by the US has no immediate negative effects on the Group. Nevertheless, the Group will closely monitor future development of the issue, and formulate relevant measures to minimize any adverse effects that may arise in the future.

During the Period under review, the Group has continued to carry out prudent and strategic developments as planned. Such accomplishments included: expansion of the fabric processing capacity and enhancement of the manufacture & sale of yarns. Despite the insignificant contributions from the latter during the Period, there was an encouraging surge in its business turnover due to its increased production and capacity. Thus, we are confident that the manufacture and sale of yarns will ultimately bring promising contributions to the Group.

Throughout 2004, the business environment was less favorable. We saw great instability in the global trading environment. The global economy was affected by extreme volatile currency market and fluctuations in the prices of raw materials. Nevertheless, the Group has turned the adverse and challenging environment into its advantage, successfully enhancing its overall productivity over its counterparts. The Group, at its expansion stage, has strived to boost its market share. Concurrently, it continues to explore acquisition opportunities to enhance synergy, to solidify its business foundation and expand its income streams. The Board firmly believes that the buoyant Chinese economy will continue to be the key driver of the Group's business. Barring any unforeseen circumstances, the Board remains cautiously optimistic towards the Group's future prospects.

## LIQUIDITY AND FINANCIAL RESOURCES

During the Period under review, the Group principally met its funding requirements by cash flows from operations and bank borrowings. The net cash inflow from operating activities and financing activities were approximately HK\$25 million and HK\$35 million respectively.

On 8 March 2005, the Company had entered into a facility agreement (the “Facility Agreement”) in obtaining a facility of the aggregate amount of HK\$70 million with a syndicate of banks (the “Facility”). Under the Facility Agreement, the Company has charged all its shares in Treasure Wealth Assets Limited (“Treasure Wealth”), a wholly-owned subsidiary of the Company, and has pledged all its capital in Fujian Fenghua Textile Co., Ltd (“Fujian Fenghua”), a wholly-owned subsidiary of the Company. All amounts under the Facility was utilised during the Period.

At 31 March 2005, the Group’s total bank borrowings amounted to approximately HK\$196 million, of which 64% was short-term bank borrowings and 36% was long-term bank borrowings. Besides, 57% of the total bank borrowings was subject to fixed interest rates while 43% was subject to floating interest rates. The Group’s bank borrowings were primarily denominated in Renminbi and Hong Kong dollars. For the Group’s total bank borrowings as at 31 March 2005, 57% of the balance was denominated in Renminbi and 43% of the balance was denominated in Hong Kong dollars.

At 31 March 2005, the Group’s bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain leasehold land and buildings of the Group; (iii) corporate guarantees given by the Company and its subsidiaries; and (iv) charges over the equity of its subsidiaries.

With the increase in bank borrowings, the gearing ratio, which was calculated on the basis of total bank borrowings to the total shareholders’ equity, increased from 0.35 as at 30 September 2004 to 0.43 as at 31 March 2005. The gearing ratio of 0.43 is considered to be at a reasonably adequate level.

At 31 March 2005, the Group had current assets of approximately HK\$307 million and current liabilities of approximately HK\$212 million. The current ratio, which was calculated on the basis of current assets to the current liabilities, improved from 1.20 as at 30 September 2004 to 1.45 as at 31 March 2005, owing primarily to the increased level of long term financing. The current ratio of 1.45 was at a healthy level and indicated that the Group's liquidity remained sound.

### **CAPITAL STRUCTURE**

There is no movement of share capital during the Period under review and the Company had in issue 774,452,000 ordinary shares of the Company as at 31 March 2005.

### **FOREIGN EXCHANGE EXPOSURE**

The sales and purchases of the Group were mainly denominated in US dollars and Renminbi. Bank borrowings were denominated in Renminbi and Hong Kong dollars. As the exchange rates of US dollars against Renminbi and Hong Kong dollars were relatively stable during the Period under review, the Group's exposure to currency exchange risk was minimal.

### **CAPITAL EXPENDITURES**

During the Period under review, the total capital expenditure of the Group was approximately HK\$25 million, of which approximately HK\$14 million was used for the purchase of leasehold land for the further development of the Group and approximately HK\$11 million was used for the expansion of fabric processing production capacity.

## CHARGES ON ASSETS

On 8 March 2005, the Company has entered into the Facility Agreement with a syndicate of banks. The Facility Agreement is for a 3-year term loan facility in the aggregate amount of HK\$70 million. Under the Facility Agreement, the Group has charged all the shares in Treasure Wealth and has pledged all the capital in Fujian Fenghua as one of the conditions in obtaining the Facility.

Save as disclosed above, at 31 March 2005, the Group's leasehold land and building with an aggregate net book value of approximately HK\$10 million and plant and machinery with an aggregate net book value of approximately HK\$70 million were pledged to banks to secure banking facilities granted to the Group.

## CONTINGENT LIABILITIES

At 31 March 2005, the Group did not have any significant contingent liabilities (30 September 2004: Nil).

At 31 March 2005, the Company had provided corporate guarantee to the extent of HK\$15 million (30 September 2004: HK\$50 million) for banking facilities granted to a subsidiary, which were utilised to the extent of HK\$15 million (30 September 2004: HK\$50 million)

## MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There is no material acquisition or disposal of subsidiaries and associated companies during the Period under review.

## EMPLOYMENT INFORMATION

At 31 March 2005, the Group had a total of approximately 2,400 employees in Hong Kong, Macau and the PRC. The Group's emoluments policies are formulated on the performance of individual employee and on the basis of the salary trends in various regions, and are reviewed periodically. In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

## DISCLOSURE OF ADDITIONAL INFORMATION

### INTERIM DIVIDEND

The Board has resolved to pay interim dividend of HK1.1 cent per share for the six months ended 31 March 2005 (2004: HK1.6 cent). The total dividend will be approximately HK\$8,519,000 (2004: HK\$12,379,000). The dividend will be payable on or around Friday, 19 August 2005 to shareholders whose names appear on the Register of Members on 29 July 2005.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 July 2005 to 29 July 2005 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 25 July 2005.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2005, the interests of the directors and chief executives of the Company or their respective associates in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required to be 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, or as recorded in the register required to be maintained pursuant to Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows:

#### Long positions

(a) *Ordinary Shares of HK\$0.01 each of the Company*

Name of director	Capacity	Type of interest	Number of shares held	Approximate percentage of shareholding in the Company
Mr. Cai Zhen Rong	Beneficial owner	Personal	406,800,000	52.53%

(b) *Bonus warrants*

Bonus warrants were granted following the placing and new issues of shares of the Company on 29 August 2002. Each holder of the bonus warrants will entitle to subscribe for one ordinary share of the Company at HK\$0.65 subject to adjustment. They are exercisable from 30 August 2002 to 21 August 2005 (both dates inclusive).

<b>Name of director</b>	<b>Capacity</b>	<b>Type of interest</b>	<b>Number of warrants held</b>	<b>Approximate percentage of interests to the issued share capital</b>
Mr. Cai Zhen Rong	Beneficial owner	Personal	48,000,000	6.20%

Save as disclosed above, at 31 March 2005, none of the directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code in the Listing Rules.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the “SO 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 SO Scheme include the Company’s directors, including independent non-executive directors, employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entities providing research, development or other technological support to the Group, and any minority shareholder in the Company’s subsidiaries. The SO Scheme became effective on 30 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 SO 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 SO Scheme within any 12-month year, 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 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within 12-month year, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise year 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 10 years from the date of the grant of the share options or the expiry date of the SO Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

No options had been granted or agreed to be granted or outstanding under the SO Scheme during the Period.

To ensure the transparency of the status in relation to the granting of share options, the Company will make an announcement to the public to inform the shareholders of the Company promptly every time when the directors of the Company approve granting of further share option.

## **SUBSTANTIAL SHAREHOLDERS**

At 31 March 2005, to the best knowledge of the directors of the Company, no party (other than a director or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## **DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the headings "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" and "Share option scheme", at no time during the Period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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



## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Code of Conduct regarding securities transactions by directors as set out in Appendix 10 of the Listing Rules during the Period and all directors have complied with required standard of dealings set out therein.

## CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 March 2005, in compliance with the Code of Best Practice (the “Code”) as set out in Appendix 14 to the Listing Rules which was in force prior to 1 January 2005 and remains applicable for the accounting periods commencing before 1 January 2005, except that all of the independent non-executive directors of the Company, namely, Ms. Choy So Yuk, Mr. Lawrence Gonzaga and Mr. Wong Siu Hong, and an executive director, namely, Mr. Mak Shiu Chung, Godfrey are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s articles of association.

## AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors of the Company. This interim results have been reviewed and approved by the Audit Committee, but have not been audited by the auditors of the Company. During the Period, a regular meeting of the Audit Committee has been held.

On behalf of the Board

**Cai Yang Bo**

*Executive Director*

Hong Kong, 7 June 2005