



RAYMOND Industrial Ltd
利民實業有限公司

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Interim Report

MANAGEMENT STATEMENT

The Directors are pleased to present their management statement together with the unaudited condensed consolidated financial statements of Raymond Industrial Limited (the “Company”) and its subsidiaries (the “Group”) for the six months ended 30th June 2005.

Business Highlights

With modest sales growth in the first half of 2005, gross profit margin of the Group could not overcome the adverse effect due to escalating costs of certain raw materials. Nevertheless, we are still pleased to announce that the turnover of the Group was HK\$496 million in the first six months of 2005, representing an increase of 9.7% compared with turnover at the same time last year. The Group’s net profit attributable to equity holders was however disappointing at HK\$25 million, reflecting a decrease of 29% compared with same time last year. During these difficult six months, raw materials had surged but in recent weeks have stabilised or declined slightly. We expect our margins will be improved in the second half of 2005, so we remain cautiously optimistic about the second half results. The increase in turnover in the first half of 2005 was attributed mainly to the increased sales of new small appliance products.

Rental activities at 410 Kwun Tong Road were also improved slightly in the first half of 2005 and rental income for the first six months was HK\$7.1 million. The entire office building, including the basement that was previously unoccupied, is fully leased during the period.

Regarding the cigarette paper business, we have ramped up tipping paper production of PM4 successfully. Production of cigarette paper of PM1 and PM2 machines are stable. Nevertheless the increasing costs of electricity, water and wood pulp had caused margins pressure on the paper business. During the same period, we have overcome major hurdles by resolving some technical problems to produce tea bag paper, but we were still working on solving technical issues in producing high porous plug wrap paper for the tobacco industry.

Subsequent Events

In July 2005, the Company and its wholly-owned subsidiary, Airborne, had entered into a sale & purchase agreement to sell 5% of equity interests owned by Airborne (10,000,000 Class B shares) in Cheung Fung Technology (“CFT”), a non-wholly owned subsidiary, to Trierenberg Holdings AG (“TBG”) of Austria, an independent third party. The disposal was completed on 2nd September 2005 after obtaining the independent shareholders’ approval of the Company at an extraordinary general meeting held on 30th August 2005. The Group believes that the disposal of 5% interests in CFT in exchange of technical know-how skills and customers from TBG would increase reputation, sales and production capacity of CFT in the coming months.

In August 2005, the Company had entered into a provisional agreement to sell the 410 Kwun Tong Road to Harlition, an institutional fund independent from the Group, in order to take advantage of favourable property market realizing a satisfactory value for the property.

Prospects for Second Half of 2005

The Company successfully launched a series of new shaver and toaster oven lines during the first half of 2005. However, sales of some older products have declined over the same period. The Company is optimistic that we will continue to develop new products and launch them for new customers in the second half and we expect contributions of these new products would help both our turnover and margins in the second half of 2005. As a result, profit from small appliance sales for 2005 is expected to be slightly higher than that of 2004 provided that sales forecast of older products would match last year's number.

We have now entered the production phase of the PM3 high porous plug wrap paper and PM4 tipping paper at our Jinfeng cigarette paper company. We will continue our one-stop-shop strategy to expand our China sales of cigarette paper and expand our export sales through making alliances with foreign partners and agencies. We will also try to minimize the market specific risk and achieve full utilization rate of all our machines in the next 18 months by selling other high margin specialty paper such as tea bag paper and furniture decorative paper.

Interim Dividend

At a meeting held on 9th September 2005, the Board of Directors proposed an interim dividend of 5 HK cents (2004: 5 HK cents) per ordinary share.

	Six months ended	
	30th June 2005 <i>HK\$'000</i>	30th June 2004 <i>HK\$'000</i>
Interim, proposed, of 5 HK cents (2004: 5 HK cents) per ordinary share	18,796	18,521

The interim dividend proposed was computed based on 375,910,884 ordinary shares of the Company in issue on 9th September 2005.

The interim dividend will be payable on 18th October 2005, to shareholders whose names appear on the register of members at the close of business on 30th September 2005.

The book of transfers and register of members will be closed from 3rd October 2005 to 5th October 2005, both days inclusive, during which period no transfer of shares will be registered.

Financial Position

The liquidity position of the Company was satisfactory. The current ratio was 0.98 as of 30th June 2005. Bank balances and cash were HK\$86.7 million as of 30th June 2005.

The Group continues to maintain a well balanced and carefully structured loan portfolio to support its long-term growth strategy. As at 30th June 2005, total bank borrowings amounted to HK\$402.8 million (comprising short-term bank loans of HK\$338.5 million and long-term bank loans of HK\$64.3 million), representing a decrease of HK\$0.2 million as compared to the balance as of 31st December 2004.

The major borrowings of the Group are in Renminbi, US Dollars and HK Dollars. Interests are charged on the borrowings at either fixed rates or floating rates based on LIBOR, HIBOR or SIBOR.

The Group expresses its gearing ratio as a percentage of total bank borrowings over total assets. As of 30th June 2005, the gearing ratio of the Group is 26% (31st December 2004: 26%).

Charges on Assets

As at 30th June 2005, certain assets of the Group with an aggregate carrying value of approximately HK\$756 million (31st December 2004: HK\$669 million) were pledged to secure loans and banking facilities of the Group.

Contingent Liabilities

As at 30th June 2005, total contingent liabilities of the Group amounted to approximately HK\$475 million (31st December 2004: HK\$514 million).

Foreign Exchange Exposure

Most of the Group's transactions were conducted in US Dollars, Hong Kong Dollars and Renminbi. The Group does not foresee any substantial exposure to foreign currency fluctuations and thus use of financial instruments for exchange rate hedging purpose is not considered.

Staff

The Group (including Cheung Fung) currently employs approximately 70 Hong Kong staffs and operates the Mandatory Provident Fund Scheme and defined contribution pension schemes. Our factory in China employs about 300 staffs, and workers employed directly or indirectly varied from 5,000 to 6,500 persons during the period.

The Group's remuneration policies and share option scheme remained the same as revealed in the annual financial statements for the year ended 31st December 2004.

On behalf of the Board, I would like to extend the Board's appreciation to all our staff for their hard work and dedication throughout the period.

Purchase, Sale or Redemption of Securities

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

Share Options

Share options are granted to directors, employees and other eligible participants specified under the Share Option Scheme (the "Scheme") approved by shareholders of the Company at an Extraordinary General Meeting on 6th June 2003. Details of the Scheme were disclosed in the 2004 annual financial statements.

Details of the share options outstanding as at 30th June 2005 which have been granted under the Scheme are as follows:

Name	Number of options				Exercise price HK\$	Grant date	Exercisable period
	held at 1st January 2005	granted during the period (note a)	exercised during the period (note b)	held at 30th June 2005			
<i>Executive Directors</i>							
Mr. Wong, Wilson Kin Lae	-	1,100,000	-	1,100,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
Mr. Wong, John Ying Man	3,143,008	605,000	3,143,008	605,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
Mr. Wong, Kennedy Ying Ho	3,143,008	607,000	1,143,008	2,000,000	1.25	23rd June 2003	23rd June 2003 to 5th June 2013
				607,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
Mr. Wong, Raymond Man Hin	-	3,100,000	-	3,100,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
<i>Non-Executive Directors</i>							
Dr. Wong, Philip Kin Hang	-	3,588,000	-	3,588,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
Mr. Huang Zhouchang	-	600,000	-	600,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
Mr. Qiang Wenyu	-	600,000	-	600,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
<i>Independent Non-Executive Directors</i>							
Mr. Leung, Michael Kai Hung	-	330,000	-	330,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
Mr. Fan, Anthony Ren Da	-	330,000	330,000	-	2.425	21st June 2005	21st June 2005 to 5th June 2013
Mr. Ng Yiu Ming	-	330,000	-	330,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
<i>Alternate Director</i>							
Mr. Xiong Zhengfeng	-	330,000	-	330,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
<i>Other employees</i>	50,000	6,761,000	50,000	6,761,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
<i>Suppliers</i>	100,000	-	-	100,000	1.25	23rd June 2003	23rd June 2003 to 5th June 2013
<i>Other eligible persons</i>	-	470,000	-	470,000	2.425	21st June 2005	21st June 2005 to 5th June 2013
	<u>6,436,016</u>	<u>18,751,000</u>	<u>4,666,016</u>	<u>20,521,000</u>			

Notes:

- (a) At the trading date before the options were granted, 20th June 2005, the market value per share was HK\$2.40.
- (b) The weighted average closing price of the shares of the Company before the exercise dates on which the options were exercised was HK\$2.252.

Directors' Interests in Shares and Underlying Shares of the Company

As at 30th June 2005, the interests of the Directors of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Number of shares					Total	Percentage
	Personal interests	Family interests	Corporate interests	Other interests	Share options		
<i>Executive Directors</i>							
Mr. Wong, Wilson Kin Lae	3,476,008	150,000 (a)	13,431,837 (b)	77,881,760 (c)	1,100,000 (g)	96,039,605	25.59%
Mr. Wong, John Ying Man	4,568,448	-	-	-	605,000 (g)	5,173,448	1.38%
Mr. Wong, Kennedy Ying Ho	1,143,008	-	12,385,820 (d)	-	2,607,000 (g)	16,135,828	4.30%
Mr. Wong, Raymond Man Hin	4,117,972	-	-	-	3,100,000 (g)	7,217,972	1.92%
<i>Non-Executive Directors</i>							
Dr. Wong, Philip Kin Hang	-	421,000 (e)	35,069,688 (f)	-	3,588,000 (g)	39,078,688	10.41%
Mr. Huang Zhouchang	-	-	-	-	600,000 (g)	600,000	0.16%
Mr. Qiang Wenyu	-	-	-	-	600,000 (g)	600,000	0.16%
<i>Independent Non-Executive Directors</i>							
Mr. Leung, Michael Kai Hung	864,000	-	-	-	330,000 (g)	1,194,000	0.32%
Mr. Fan, Anthony Ren Da	644,000	-	-	-	-	644,000	0.17%
Mr. Ng Yiu Ming	-	-	-	-	330,000 (g)	330,000	0.09%
<i>Alternate Director</i>							
Mr. Xiong Zhengfeng	-	-	-	-	330,000 (g)	330,000	0.09%

Notes:

- (a) These shares were held by Ms. Sun, Amelia Kwing Hai, spouse of Mr. Wong, Wilson Kin Lae.
- (b) These shares were held through Broadbridge Enterprises Limited, a company beneficially owned by Mr. Wong, Wilson Kin Lae and his spouse.

- (c) These shares were held under a trust, the beneficiaries of which include the children of Mr. Wong, Wilson Kin Lae.
- (d) These shares were held through Limin Corporation, a company controlled by Mr. Wong, Kennedy Ying Ho.
- (e) These shares were held by Mrs. Wong Cheng, Gertrude Kwok Cheung, spouse of Dr. Wong, Philip Kin Hang.
- (f) These shares were held through Ho Kit Man Inc., a company controlled by Dr. Wong, Philip Kin Hang and his spouse.
- (g) Share options are granted to the Directors under the Scheme approved by shareholders at an Extraordinary General Meeting on 6th June 2003 and a refreshment of share option mandate limit under the Scheme that was approved by shareholders at the Annual General Meeting on 3rd June 2005. Please refer to details disclosed under "Share Options" above.

All the interests disclosed under this section represent long positions in the shares and share options of the Company.

Saved as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporation.

Substantial Shareholders' Interests in Shares and Underlying Shares of the Company

According to the register of substantial shareholders maintained under section 336 of the SFO as at 30th June 2005, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of shareholder	Number of shares				Total	Percentage
	Personal interests	Family interests	Corporate interests	Other interests		
Ms. Sun, Amelia Kwing Hai	150,000	82,457,768 (a)	13,431,837 (b)	-	96,039,605	25.59%
Haylee Inc.	-	-	-	77,881,760 (c)	77,881,760	20.75%
East Asia International Trustees Limited	-	-	-	77,881,760 (d)	77,881,760	20.75%
Silver Talent Development Limited	-	-	53,080,800	-	53,080,800	14.14%
Mrs. Wong Cheng, Gertrude Kwok Cheung	421,000	3,588,000 (e)	35,069,688 (f)	-	39,078,688	10.41%
Ho Kit Man Inc.	-	-	35,069,688	-	35,069,688	9.34%

Notes:

- (a) These shares were held by Mr. Wong, Wilson Kin Lae, spouse of Ms. Sun, Amelia Kwing Hai, of which details are set out in the "Directors' Interests in Shares and Underlying Shares of the Company" section above.

- (b) These shares were held through Broadbridge Enterprises Limited, a company beneficially owned by Ms. Sun, Amelia Kwing Hai and her spouse.
- (c) Haylee Inc. held the shares for the trust disclosed in Note (c) under “Directors’ Interests in Shares and Underlying Shares of the Company” section above.
- (d) The interests of its wholly-owned corporation, Haylee Inc., disclosed in Note (c) above were attributable to East Asia International Trustees Limited.
- (e) These shares were held by Dr. Wong, Philip Kin Hang, spouse of Mrs. Wong Cheng, Gertrude Kwok Cheung, of which details are set out in the “Directors’ Interests in Shares and Underlying Shares of the Company” section above.
- (f) These shares were held through Ho Kit Man Inc., a company controlled by Mrs. Wong Cheng, Gertrude Kwok Cheung and her spouse.

All the interests disclosed under this section represent long positions in the shares of the Company.

Corporate Governance

Throughout the period, the Company was in compliance with the Code of Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of The Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”), with deviations from code provision A.4.1 of the CG Code in respect of the service term of independent non-executive directors.

Under code provision A.4.1 of the CG Code, non-executive directors (including independent non-executive directors) should be appointed for a specific term and subject to re-election.

None of the existing independent non-executive directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the CG Code. However, all independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company’s Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code.

Remuneration Committee

A Remuneration Committee has been established in accordance with the requirements of the CG Code. The Remuneration Committee comprises two Executive Directors, Mr. Wong, John Ying Man and Mr. Wong, Raymond Man Hin, one Non-Executive Director, Mr. Huang Zhouchang, and three Independent Non-Executive Directors, Mr. Leung, Michael Kai Hung (Chairman), Mr. Fan, Anthony Ren Da and Mr. Ng Yiu Ming.

Model Code

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company (the “Code”). Having made specific enquiry of the Directors of the Company, all the Directors confirmed that they had complied with the required standards as set out in the Code during the six months period ended 30th June 2005.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee of the Company has reviewed with the management the accounting practices and principles adopted by the Group and discussed auditing, internal control and financial reporting matters with the management of the Company including the review of this interim report.

By Order of the Board

Wong, Wilson Kin Lae

Chairman

Hong Kong, 9th September 2005

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	Note	(Unaudited) 30th June 2005 HK\$'000	(Restated) 31st December 2004 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	509,340	500,647
Investment properties	4	385,762	385,762
Leasehold land and land use rights	4	28,395	28,758
Interests in jointly controlled entities	5	28,851	28,116
Deferred income tax assets		152	152
		952,500	943,435
Current assets			
Inventories		186,295	172,868
Debtors, net	6	207,361	201,663
Bills receivable		943	1,885
Deposits, prepayments and other receivables		29,592	13,526
Taxation receivable		1,254	-
Amounts due from related companies	19(a)	6,092	4,392
Amounts due from jointly controlled entities	19(a)	80,096	28,726
Bank balances and cash		86,709	178,498
		598,342	601,558
Total assets		1,550,842	1,544,993

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

		As at	
	Note	(Unaudited) 30th June 2005 HK\$'000	(Restated) 31st December 2004 HK\$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	7	187,680	185,347
Other reserves	8	158,880	154,264
Retained earnings	8		
– Proposed dividend		18,796	40,782
– Others		386,080	380,151
		<hr/>	<hr/>
		751,436	760,544
Minority interests	8	90,364	90,823
		<hr/>	<hr/>
Total equity		841,800	851,367
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Non-current rental deposits payable		1,260	1,078
Long-term bank loans	10	50,188	50,188
Deferred tax liabilities		47,937	48,325
		<hr/>	<hr/>
		99,385	99,591
		<hr/>	<hr/>
Current liabilities			
Creditors and accrued charges	9	249,800	202,568
Bills payable		565	26,383
Taxation payable		–	5,694
Dividends payable		531	428
Amounts due to related companies	19(a)	6,134	6,134
Current portion of long-term bank loans	10	14,139	14,139
Short-term bank loans, secured	10	338,488	338,689
		<hr/>	<hr/>
		609,657	594,035
		<hr/>	<hr/>
Total liabilities		709,042	693,626
		<hr/>	<hr/>
Total equity and liabilities		1,550,842	1,544,993
		<hr/>	<hr/>
Net current (liabilities)/assets		(11,315)	7,523
		<hr/>	<hr/>
Total assets less current liabilities		941,185	950,958
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CONDENSED CONSOLIDATED INCOME STATEMENT**(Unaudited)**
Six months ended 30th June

		2005	(Restated)
	<i>Note</i>	HK\$'000	2004 HK\$'000
Turnover	3	496,481	452,756
Cost of sales		(411,550)	(352,207)
Gross profit		84,931	100,549
Other revenue, net	11	1,390	356
Selling expenses		(12,889)	(13,721)
General and administrative expenses		(31,345)	(31,526)
Other operating expenses		-	(650)
Operating profit		42,087	55,008
Finance costs	12	(13,131)	(12,120)
Share of profit/(loss) of jointly controlled entities		7	(12)
Profit before taxation		28,963	42,876
Taxation	13	(2,153)	(4,524)
Profit for the period		26,810	38,352
Attributable to:			
Equity holders of the Company		25,197	35,380
Minority interests		1,613	2,972
		26,810	38,352
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cents per share)			
- basic	14	6.7	9.6
- diluted	14	6.7	9.5
Dividends	15	18,796	18,521

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		(Unaudited) Six months ended 30th June	
	Notes	2005 HK\$'000	2004 HK\$'000
Balance as at 1st January, as previously reported as equity		758,640	710,845
Balance as at 1st January, as previously separately reported as minority interests		90,823	100,629
Adjustment for the adoption of HKAS 17 – decrease in depreciation charges of leasehold land	2(b)	1,904	1,666
Balance as at 1st January, as restated		851,367	813,140
Profit for the period		26,810	38,352
Total recognised income for the six months ended 30th June		26,810	38,352
Employees share option scheme:			
– value of employee services	8	728	–
– proceeds from shares issued	7, 8	6,220	4,266
Dividend	8	(41,253)	(37,041)
Minority interests' share of increase in equity interest in a jointly controlled entity	8	(2,072)	(12,949)
		(36,377)	(45,724)
Balance as at 30th June		841,800	805,768

CONDENSED CONSOLIDATED CASH FLOW STATEMENT**(Unaudited)**
Six months ended 30th June

	2005 HK\$'000	2004 <i>HK\$'000</i>
Net cash (used in)/generated from operating activities	(56,636)	2,569
Net cash used in investing activities	(28,041)	(43,883)
Net cash used in financing activities	(7,112)	(49,629)
Net decrease in bank balances and cash	(91,789)	(90,943)
Bank balances and cash as at 1st January	178,498	180,077
Bank balances and cash as at 30th June	86,709	89,134

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of Preparation and Accounting Policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods commencing on or after 1st January 2005.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in Accounting Policies

In 2005, the Group adopted the new/ revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 17	Leases
HKFRS 2	Share-based Payments

The effects of the adoption of new/revised HKFRS on the accounting policies and the reported financial results of the Group are summarised as follows:

(a) *HKAS 1 Presentation of Financial Statements*

The adoption of revised HKAS 1 has affected the presentation of minority interests, share of net after-tax results of jointly controlled entities and other disclosures.

2. Changes in Accounting Policies *(continued)*

(b) HKAS 17 Leases

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land and land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The effect of the adoption of revised HKAS 17 is as follows:

	As at	
	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Decrease in property, plant and equipment	26,372	26,854
Increase in leasehold land and land use rights	28,395	28,758
Increase in opening retained earnings	1,904	1,666

	For the year ended	For the six months ended	
	31st December 2004 HK\$'000	30th June 2005 HK\$'000	30th June 2004 HK\$'000
Decrease in administrative expenses	238	119	119

(c) HKFRS 2 Share-based Payments

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. In prior years, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement.

2. Changes in Accounting Policies (continued)

(c) HKFRS 2 Share-based Payments (continued)

The effect of the adoption of HKFRS 2 is as follows:

	As at	
	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Increase in share capital	728	–
	For the six months ended	
	30th June 2005 HK\$'000	30th June 2004 HK\$'000
Increase in administrative expenses	–	728

There was no impact on opening retained earnings at 1st January 2004 and 1st January 2005 from the adoption of HKFRS 2.

There was no material impact on basic and diluted earnings per share from the adoption of HKAS 17 and HKFRS 2.

No early adoption of the following new standards or interpretations that have been issued but are not yet effective. The adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains A Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. Segment Information

(a) Primary reporting format – geographical segments

The Group's sales are mainly derived from North America, Japan, Australia, Europe and the PRC. All purchases, production and shipment of goods are conducted in the PRC with its head office located in Hong Kong (included in "Others" below).

The segment results for the six months ended 30th June 2005 are as follows:

	The U.S. HK\$'000	Canada HK\$'000	The PRC HK\$'000	Japan HK\$'000	Europe HK\$'000	Australia HK\$'000	Others HK\$'000	Unallocated HK\$'000	The Group HK\$'000
Turnover	154,128	3,788	85,399	144,015	72,729	10,077	26,345	-	496,481
Operating profit	6,960	170	16,527	6,503	3,285	456	7,923	263	42,087
Finance costs									(13,131)
Share of profit of jointly controlled entities	-	-	7	-	-	-	-	-	7
Profit before taxation									28,963
Taxation									(2,153)
Profit for the period									26,810
Capital expenditure	-	-	7,435	-	-	-	17,965	-	25,400
Depreciation/amortisation	-	-	16,032	-	-	-	878	-	16,910
Write-off of fixed assets	-	-	23	-	-	-	-	-	23

3. Segment Information (continued)

(a) Primary reporting format – geographical segments (continued)

The segment results for the six months ended 30th June 2004 are as follows:

	The U.S. HK\$'000	Canada HK\$'000	The PRC HK\$'000	Japan HK\$'000	Europe HK\$'000	Australia HK\$'000	Others HK\$'000	Unallocated HK\$'000	The Group HK\$'000
Turnover	143,957	3,247	79,914	107,048	92,957	6,996	18,637	-	452,756
Operating profit	20,553	463	17,368	15,284	13,272	999	8,242	(21,173)	55,008
Finance costs									(12,120)
Share of loss of jointly controlled entities	-	-	(12)	-	-	-	-	-	(12)
Profit before taxation									42,876
Taxation									(4,524)
Profit for the period									38,352
Capital expenditure	-	-	43,865	-	-	-	294	-	44,159
Depreciation	-	-	13,216	-	-	-	955	-	14,171
Amortisation of goodwill	-	-	571	-	-	-	-	-	571
Write-off of fixed assets	-	-	45	-	-	-	-	-	45

The segment assets and liabilities as at 30th June 2005 are as follows:

	The U.S. HK\$'000	Canada HK\$'000	The PRC HK\$'000	Japan HK\$'000	Europe HK\$'000	Australia HK\$'000	Others HK\$'000	Unallocated HK\$'000	The Group HK\$'000
Assets	-	-	884,684	-	-	-	635,513	1,794	1,521,991
Interests in jointly controlled entities	-	-	28,851	-	-	-	-	-	28,851
Total assets	-	-	913,535	-	-	-	635,513	1,794	1,550,842
Liabilities	9,501	-	493,185	-	-	-	157,890	48,466	709,042

The segment assets and liabilities as at 31st December 2004 are as follows:

	The U.S. HK\$'000	Canada HK\$'000	The PRC HK\$'000	Japan HK\$'000	Europe HK\$'000	Australia HK\$'000	Others HK\$'000	Unallocated HK\$'000	The Group HK\$'000
Assets	-	-	856,776	-	-	-	659,949	152	1,516,877
Interests in jointly controlled entities	-	-	28,116	-	-	-	-	-	28,116
Total assets	-	-	884,892	-	-	-	659,949	152	1,544,993
Liabilities	9,501	-	491,846	-	-	-	137,832	54,447	693,626

3. Segment Information *(continued)*

(b) Secondary reporting format – business segments

The Group is principally engaged in the manufacturing and sale of electrical home appliances, manufacturing and sale of cigarette paper and property leasing.

The segment results for the six months ended 30th June 2005 are as follows:

	Electrical home appliances	Cigarette paper	Property leasing	Unallocated	The Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>413,258</u>	<u>76,171</u>	<u>7,052</u>	<u>-</u>	<u>496,481</u>
Operating profit	<u>18,659</u>	<u>16,113</u>	<u>7,052</u>	<u>263</u>	<u>42,087</u>
Capital expenditure	<u>25,323</u>	<u>77</u>	<u>-</u>	<u>-</u>	<u>25,400</u>

The segment results for the six months ended 30th June 2004 are as follows:

	Electrical home appliances	Cigarette paper	Property leasing	Unallocated	The Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>367,776</u>	<u>78,421</u>	<u>6,559</u>	<u>-</u>	<u>452,756</u>
Operating profit	<u>52,509</u>	<u>17,155</u>	<u>6,517</u>	<u>(21,173)</u>	<u>55,008</u>
Capital expenditure	<u>38,144</u>	<u>6,015</u>	<u>-</u>	<u>-</u>	<u>44,159</u>

The segment assets as at 30th June 2005 and 31st December 2004 are as follows:

	As at	
	30th June 2005	31st December 2004
	<i>HK'000</i>	<i>HK'000</i>
Assets		
– Electrical home appliances	546,992	550,493
– Cigarette paper	587,443	580,470
– Property leasing	385,762	385,762
– Unallocated	1,794	152
	<u>1,521,991</u>	<u>1,516,877</u>
Interests in jointly controlled entities	28,851	28,116
	<u>1,550,842</u>	<u>1,544,993</u>
Total assets		

4. Capital Expenditure

	Investment properties <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>	Leasehold land and land use rights <i>HK\$'000</i>
Opening net book amount as at 1st January 2005, as previously reported	385,762	500,647	26,854
Adjustment for the adoption of HKAS 17	—	—	1,904
	<u>385,762</u>	<u>500,647</u>	<u>28,758</u>
Opening net book amount as at 1st January 2005, as restated	385,762	500,647	28,758
Additions	—	25,400	—
Disposals	—	(137)	—
Depreciation/amortisation charge	—	(16,547)	(363)
Write-off	—	(23)	—
	<u>—</u>	<u>(16,570)</u>	<u>(363)</u>
Closing net book amount as at 30th June 2005	<u>385,762</u>	<u>509,340</u>	<u>28,395</u>
Opening net book amount as at 1st January 2004, as previously reported	308,458	470,978	27,777
Adjustment for the adoption of HKAS 17	—	—	1,666
	<u>308,458</u>	<u>470,978</u>	<u>29,443</u>
Opening net book amount as at 1st January 2004, as restated	308,458	470,978	29,443
Additions	—	59,256	—
Disposals	—	(67)	—
Depreciation/amortisation charge	—	(29,470)	(685)
Revaluation	77,304	—	—
Write-off	—	(50)	—
	<u>77,304</u>	<u>(50)</u>	<u>(685)</u>
Closing net book amount as at 31st December 2004	<u>385,762</u>	<u>500,647</u>	<u>28,758</u>

5. Interests in Jointly Controlled Entities

	As at	
	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Share of net assets	<u>28,851</u>	<u>28,116</u>
Unlisted shares, at cost	<u>38,057</u>	<u>37,329</u>

During the period, a non-wholly owned subsidiary of the Group injected a total amount of approximately HK\$2,801,000 into a jointly controlled entity of the Group. As a result, the effective interest of the Group in the jointly controlled entity increased from 24.80% to 26.01%.

Notes:

- (a) A jointly controlled entity, Sichuan Jinfeng Innovation Industry Company Limited, was incorporated in the PRC and its 26.01% effective interests are held by the Group. Its principal activities are manufacturing and trading of cigarette paper.
- (b) A jointly controlled entity, Sichuan Jinfeng Spike Paper Products Company Limited, was incorporated in the PRC and its 26.17% effective interests are held by the Group. Its principal activities are manufacturing and trading of cigarette paper.

6. Debtors, Net

	As at	
	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Debtors, net	<u>214,658</u>	208,960
Less: Provision for bad and doubtful debts	<u>(7,297)</u>	<u>(7,297)</u>
	<u>207,361</u>	<u>201,663</u>

6. Debtors, Net *(continued)*

The ageing analysis of debtors after provision for bad and doubtful debts at 30th June 2005 is as follows:

	As at	
	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Within 3 months	163,282	140,060
Over 3 months but less than 6 months	29,261	37,067
Over 6 months but less than 1 year	11,039	18,790
Over 1 year	3,779	5,746
	<u>207,361</u>	<u>201,663</u>

The normal credit period granted by the Group is on average 1 to 12 months from the date of invoice.

7. Share Capital

	30th June 2005		31st December 2004	
	Number of shares thousands	Nominal value HK\$'000	Number of shares thousands	Nominal value HK\$'000
<i>Authorised:</i>				
Beginning of the period/year	1,000,000	500,000	500,000	250,000
Increase in authorised ordinary shares	-	-	500,000	250,000
End of the period/year	<u>1,000,000</u>	<u>500,000</u>	<u>1,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>				
Beginning of the period/year	370,695	185,347	367,002	183,501
Exercise of share options	4,666	2,333	3,693	1,846
End of the period/year	<u>375,361</u>	<u>187,680</u>	<u>370,695</u>	<u>185,347</u>

Share options are granted to directors, employees and other eligible participants specified under the Share Option Scheme (the "Scheme") approved by shareholders of the Company at an Extraordinary General Meeting on 6th June 2003. A nominal consideration of HK\$1 was paid by the participants for each lot of share options granted. Share options can be exercised from the date of grant to 5th June 2013.

7. Share Capital (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	30th June 2005		31st December 2004	
	Average exercise price per share HK\$	Options thousands	Average exercise price per share HK\$	Options thousands
Beginning of the period/year	1.250	6,436	1.250	10,129
Granted (note a)	2.425	18,751	–	–
Exercised (note b)	1.333	(4,666)	1.250	(3,693)
End of the period/year	2.305	20,521	1.250	6,436

Notes:

- (a) The fair value of options granted during the six months ended 30th June 2005 determined using the Black-Scholes valuation model was HK\$0.04. The significant inputs into the model were share price of HK\$2.40 at the grant date, exercise price shown above, standard deviation of expected share price returns of 8.46%, expected life of options of 2 years, expected dividend paid out rate of 6.8% and annual risk-free interest rate of 3.28%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last two months.

The Black-Scholes valuation model requires the input of highly subjective assumptions, including the volatility of share price. Any changes in subjective input assumptions can materially affect the fair value estimated.

On 21st June 2005, 18,751,000 share options were granted to directors, employees and other eligible persons at an exercise price of HK\$2.425 per share.

- (b) The related weighted average share price at the time of exercise was HK\$2.252 (2004: HK\$2.490) each.

8. Reserves and Minority Interests

	Share premium	Exchange reserve	Capital reserve	Retained earnings	The PRC statutory reserve	Other reserve	Minority interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2005, as previously reported	142,060	(6,091)	3,080	419,029	15,972	(757)	90,823	664,116
Opening adjustment for the adoption of HKAS 17	-	-	-	1,904	-	-	-	1,904
Balance at 1st January 2005, as restated	142,060	(6,091)	3,080	420,933	15,972	(757)	90,823	666,020
Share Option Scheme								
- value of service provided	728	-	-	-	-	-	-	728
- exercise of share options	3,887	-	-	-	-	-	-	3,887
Minority interests' share of increase in equity interest in a jointly controlled entity	-	-	-	-	-	-	(2,072)	(2,072)
Profit for the period	-	-	-	25,197	-	-	1,613	26,810
Dividends	-	-	-	(41,253)	-	-	-	(41,253)
Balance at 30th June 2005	146,675	(6,091)	3,080	404,877	15,972	(757)	90,364	654,120
Balance at 1st January 2004, as previously reported	139,290	(6,091)	3,080	355,663	11,473	(757)	100,629	603,287
Opening adjustment for the adoption of HKAS 17	-	-	-	1,666	-	-	-	1,666
Balance at 1st January 2004, as restated	139,290	(6,091)	3,080	357,329	11,473	(757)	100,629	604,953
Exercise of share options	2,770	-	-	-	-	-	-	2,770
Appropriation to the PRC statutory reserve	-	-	-	(4,499)	4,499	-	-	-
Minority interests' share of increase in equity interest in a jointly controlled entity	-	-	-	-	-	-	(12,960)	(12,960)
Profit for the year	-	-	-	123,679	-	-	5,852	129,531
Dividends	-	-	-	(55,576)	-	-	(2,698)	(58,274)
Balance at 31st December 2004	142,060	(6,091)	3,080	420,933	15,972	(757)	90,823	666,020

9. Creditors and Accrued Charges

	As at	
	30th June 2005 <i>HK\$'000</i>	31st December 2004 <i>HK\$'000</i>
Creditors	193,424	143,034
Accrued charges and other payables	<u>56,376</u>	<u>59,534</u>
	<u>249,800</u>	<u>202,568</u>

The ageing analysis of the creditors at 30th June 2005 is as follows:

	As at	
	30th June 2005 <i>HK\$'000</i>	31st December 2004 <i>HK\$'000</i>
Within 3 months	151,878	129,593
Over 3 months but less than 6 months	40,992	12,508
Over 6 months but less than 1 year	19	459
Over 1 year	<u>535</u>	<u>474</u>
	<u>193,424</u>	<u>143,034</u>

10. Bank Loans

At 30th June 2005, the Group's bank loans were repayable as follows:

	As at	
	30th June 2005 <i>HK\$'000</i>	31st December 2004 <i>HK\$'000</i>
Within 1 year	352,627	352,828
Between 1 and 2 years	<u>50,188</u>	<u>50,188</u>
	<u>402,815</u>	<u>403,016</u>

11. Other Revenue, Net

	For the six months ended	
	30th June 2005 HK\$'000	30th June 2004 HK\$'000
Interest income	1,043	276
Sundry income	<u>347</u>	<u>80</u>
	<u>1,390</u>	<u>356</u>

12. Finance Costs

	For the six months ended	
	30th June 2005 HK\$'000	30th June 2004 HK\$'000
Interest expense on bank loans	<u>13,131</u>	<u>12,120</u>

13. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas and the PRC profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	For the six months ended	
	30th June 2005 HK\$'000	30th June 2004 HK\$'000
Current taxation:		
– Hong Kong profits tax	–	828
– Overseas and PRC taxation	2,540	3,059
Deferred taxation relating to the origination and reversal of temporary difference	<u>(387)</u>	<u>637</u>
	<u>2,153</u>	<u>4,524</u>

14. Earnings Per Share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended	
	30th June 2005 HK\$'000	30th June 2004 HK\$'000
Profit attributable to equity holders of the Company	25,197	35,380
Weighted average number of ordinary shares in issue (thousands)	372,003	368,887
Basic earnings per share (HK cents per share)	6.7	9.6

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	For the six months ended	
	30th June 2005 HK\$'000	30th June 2004 HK\$'000
Profit attributable to equity holders of the Company	25,197	35,380
Weighted average number of ordinary shares in issue (thousands)	372,003	368,887
Adjustments for share options (thousands)	1,035	3,626
Weighted average number of ordinary shares for diluted earnings per share (thousands)	373,038	372,513
Diluted earnings per share (HK cents per share)	6.7	9.5

15. Dividends

	For the six months ended	
	30th June 2005 HK\$'000	30th June 2004 HK\$'000
Interim dividend proposed of 5 HK cents (2004: 5 HK cents) per ordinary share	18,796	18,521

Notes:

- (a) At a meeting held on 20th April 2005, the directors proposed a final dividend of 11 HK cents per ordinary share for the year ended 31st December 2004, which was paid on 14th June 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2005.
- (b) At a meeting held on 9th September 2005, the directors declared an interim dividend of 5 HK cents per ordinary share for the year ending 31st December 2005. This proposed dividend is not reflected as a dividend payable in this condensed financial information, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

16. Banking Facilities

	As at	
	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Banking facilities for trade financing, loans and overdrafts	499,161	504,849
Unused facilities	85,100	53,805

The banking facilities were secured by pledging the fixed assets and certain accounts receivable in total sum of approximately HK\$755,980,000 (31st December 2004: HK\$668,876,000) held by the Group, cross guarantees among the subsidiaries and corporate guarantees provided by related and third party companies of the Group.

17. Contingencies

- (a) At 30th June 2005, the Group has provided guarantees in respect of bank loans granted to third party companies amounting to approximately HK\$294,880,000 (31st December 2004: HK\$301,809,000).
- (i) Among such guarantees, three amounts totalling approximately HK\$230,783,000 (31st December 2004: HK\$237,712,000) (the "Guarantees"), which represented approximately 15% (31st December 2004: 15%) of the Group's total assets at 30th June 2005, were provided by a subsidiary of the Company, Sichuan Jinfeng Paper Company Limited ("Jinfeng"), and two jointly controlled entities of the Group in the PRC, Sichuan Jinfeng Spike Paper Products Company Limited ("Spike") and Sichuan Jinfeng Innovation Industry Company Limited ("Innovation") in favour of the Bank of China (the "BOC") to secure the repayment of three banking facilities (the "Bank Loan") granted to 四川劍南春融信投資有限公司 (Sichuan Jian Nan Chun Finance and Credit Investment Company Limited) ("Jian Nan Chun").

The details of the banking facilities are as follows:

Date of agreement	Guaranteed by	Amount As at	Interest rate
		30th June 2005	31st December 2004
11th July 2002	Jinfeng, Spike and Innovation	US\$14,600,000 (HK\$113,901,000)	US\$14,600,000 (HK\$113,903,000) Annual rate 4.1343%
30th October 2002	Jinfeng, Spike and Innovation	RMB65,000,000 (HK\$61,269,000)	RMB65,000,000 (HK\$61,269,000) Annual rate 6.696%
12th August 2003	Jinfeng, Spike and Innovation	EUR5,900,000 (HK\$55,613,000)	EUR5,900,000 (HK\$62,540,000) 6-month interest rate LIBOR/HIBOR + 1.3%

Jian Nan Chun is a licensed financier in the PRC and is a provider of credit and finance as well as the lessor of production facilities required by the manufacturing business (the "Production Facilities") of Spike and Innovation. In order to finance the acquisition by Jian Nan Chun on behalf of Spike and Innovation of the Production Facilities, at the request of the BOC, Spike, Innovation and Jinfeng each entered into an arrangement with Jian Nan Chun to whom the BOC granted banking facilities that were to be guaranteed by Spike, Innovation and Jinfeng.

17. Contingencies *(continued)*

Pursuant to agreements among Jian Nan Chun, Spike and Innovation, Jian Nan Chun leased the Production Facilities to Spike and Innovation for a term of six years after which title to the respective Production Facilities will be assigned to Spike and Innovation (the "Lease Arrangement"). The rentals of the Lease Arrangement mirror the respective loan repayment schedules of the Bank Loan. The aggregate rental payments under the Lease Arrangement for Spike and Innovation comprise (i) the principal of the respective Bank Loan; and (ii) the respective interest payment. Both the Production Facilities acquired for Spike and Innovation by Jian Nan Chun have been pledged to the BOC as collateral.

The outstanding lease payable by Spike and Innovation to Jian Nan Chun at 30th June 2005 amounted to approximately HK\$204,194,000 (31st December 2004: HK\$220,549,000).

- (ii) The remaining guarantee in the amount of HK\$64,097,000 (RMB68,000,000) at 30th June 2005 (31st December 2004: HK\$64,097,000 (RMB68,000,000)) was provided by Jinfeng to another third party company. Details are set out below.

After the group reorganisation completed on 25th March 2002, Cheung Fung Technology (Holdings) Limited ("Cheung Fung") became a subsidiary of the Company.

Cheung Fung is at all material times an investment holding company holding a majority share interests in its subsidiary, Jinfeng. Jinfeng in turn holds the majority share interests in an equity joint venture enterprise, namely, Innovation. The principal business activities of Innovation are the manufacture and sale of cigarette tipping paper.

In order to finance the acquisition of the machinery and production facilities for the manufacture of the cigarette tipping paper (the "Innovation Production Facilities"), Jinfeng and Innovation have made the following arrangements:

Innovation

- i. entered into the 銀企合作協議 (Cooperation Agreement) with 中國農業銀行成都市總府支行 (the Agricultural Bank of China, Chengdu Branch) (the "Agricultural Bank") and 四川金融租賃股份有限公司 (Sichuan Finance and Lease Joint Stock Company Limited) (the "Finance Company") dated 11th June 2002 pursuant to which the Agricultural Bank will provide banking facilities not exceeding the amount of HK\$65,982,000 (RMB70,000,000) to the Finance Company for the acquisition of the Innovation Production Facilities and in the event that the Finance Company is in default of

17. Contingencies (continued)

Innovation (continued)

repayment of the loan, the Agricultural Bank is authorised to deduct the overdue amount of the loan owed by the Finance Company from the bank account of Innovation. Pursuant to the Cooperation Agreement, the Finance Company has entered into seven 借款合同 loan agreements dated 11th June 2002, 8th July 2002, 21st March 2003, 31st March 2003, 23rd May 2003, 20th June 2003 and 23rd June 2003 with the Agricultural Bank and has borrowed a total sum of HK\$64,097,000 (RMB68,000,000) (the “Loan Agreements”); and

- ii. entered into the 融資租賃合同 (Finance and Lease Agreement) with the Finance Company, dated 11th June 2002 under which the Finance Company shall lease the Innovation Production Facilities to Innovation for a 57-month period at a total rent of HK\$64,097,000 (RMB68,000,000) and interests of HK\$8,483,400 (RMB9,000,000). At the end of the lease period, Innovation has an option to purchase the Innovation Production Facilities at RMB1.

Jinfeng

- i. entered into a total of seven guarantees respectively dated 11th June 2002, 8th July 2002, 21st March 2003, 31st March 2003, 23rd May 2003, 20th June 2003 and 23rd June 2003 in favour of the Agricultural Bank to secure the repayment of the loan in the aggregate amount of HK\$64,097,000 (RMB68,000,000) by the Finance Company under the Loan Agreements.

On 3rd September 2004, as a result of a 民事判定書 (Civil Verdict) involving the Finance Company and 四川通信服務公司 (Sichuan Communication Services Company, the guarantor of another loan owed by the Finance Company) (“Communication Services Company”), the People’s Court of the Sichuan Province issued a 協助執行通知書 (Notice of Execution Assistance) to Innovation requesting that any rental payment payable to the Finance Company under the Finance and Lease Agreement shall be suspended and any part of the HK\$64,097,000 (RMB68,000,000) payable to the Finance Company shall not be paid to the Finance Company or any third party.

17. Contingencies *(continued)*

Innovation obtained PRC legal advice and filed an application for the withdrawal of the Notice of Execution Assistance on 10th September 2004 on grounds that (i) the Communication Services Company has no legal rights to apply for such Notice of Execution Assistance; (ii) the issue of the Notice of Execution Assistance did not comply with the procedural rules; and (iii) the Finance Company is not the beneficial owner of the rent payable to it.

Also in September 2004, the Agricultural Bank, the Finance Company, Jinfeng and Innovation entered a 四方協議書 (Four-Party Agreement). Under the Four-Party Agreement, in consideration of the assignment to Innovation of the outstanding loan in the amount of HK\$40,343,000 (RMB42,800,000) and interests thereon owed by the Finance Company to the Agricultural Bank under the Loan Agreements, the Finance Company shall release Innovation of its liability to repay the outstanding rent payable under the Finance and Lease Agreement in the same amount of HK\$40,343,000 (RMB42,800,000) and interests thereon. By assignment of the outstanding loan to Innovation, the rights and obligations under the Loan Agreements between the Agricultural Bank and the Finance Company would be extinguished. The Finance Company also agreed that the property rights of the Innovation Production Facilities under the Finance and Lease Agreement shall be transferred to Innovation and the HK\$2,509,000 (RMB2,662,000) security money paid to the Finance Company by Innovation shall be converted into share interests, representing approximately 0.528% of the enlarged share capital of the Finance Company held by Innovation in the Finance Company and the rights and obligations between Innovation and the Finance Company under the Finance and Lease Agreement shall be extinguished. Jinfeng agreed that it shall guarantee the repayment of the outstanding loan by Innovation to the Agricultural Bank.

According to PRC legal opinions, the Four-Party Agreement shall only take effect after the Notice of Execution Assistance has been withdrawn.

At 9th September 2005, the Court has not responded to the application by Innovation for the withdrawal of the Notice of Execution Assistance. At 30th June 2005, payments in the sums of HK\$12,819,000 (RMB13,600,000) have been made by Innovation to the Bank after the issuance of the Notice of Execution Assistance.

Upon consideration of the advice from two PRC legal firms the Notice of Execution Assistance is without legal grounds, the directors are of the opinion that any related provision was considered to be unnecessary at 30th June 2005.

The outstanding lease payable by Innovation to the Finance Company at 30th June 2005 amounted to HK\$31,483,000 (RMB33,400,000) (31st December 2004: HK\$36,384,000 (RMB38,600,000)).

Both Jian Nan Chun and the Finance Company are independent third parties not connected with the Company, directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates within the definition of the Listing Rules.

17. Contingencies *(continued)*

- (b) At 30th June 2005, the Group has provided counter guarantees for bank loans granted to a third party company amounted to HK\$32,991,000 (31st December 2004: HK\$42,417,000).
- (c) At 30th June 2005, Jinfeng has provided guarantees amounting to approximately HK\$147,567,000 (31st December 2004: HK\$169,941,000) (representing approximately 10% (31st December 2004: 11%) of the Group's total assets at 30th June 2005) for two jointly controlled entities of the Group, Spike and Innovation. The guarantee is to secure the repayment of certain loans/ banking facilities provided to Spike and Innovation and Jinfeng did not receive any interest or monetary returns from Spike or Innovation in consideration of the guarantees. The amount drawn and remained outstanding under the loans/ banking facilities by Spike and Innovation amounted to HK\$147,567,000 (31st December 2004: HK\$169,941,000) at 30th June 2005.

18. Commitments

	As at	
	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Commitments for capital contribution to subsidiaries		
Authorised but not contracted for	–	32,429
Commitments for construction costs		
Contracted but not provided for	3,418	5,455
	3,418	37,884

19. Related Party Transactions

Except for those disclosed elsewhere in the accounts, the following significant related party transactions have been entered into by the Group:

- (a) The balances with related companies and jointly controlled entities were interest-free, unsecured and repayable within one year.
- (b) During the period, the Group sold raw materials, net of returns of approximately HK\$6,980,000 (2004: HK\$2,115,000) to jointly controlled entities.
- (c) At 30th June 2005, certain banking facilities of the Group were secured by corporate guarantees of HK\$95,150,000 (31st December 2004: HK\$72,722,000) provided by minority shareholders of a non-wholly owned subsidiary.

20. Events after Balance Sheet Date

- (a) On 19th July 2005, the Company and its wholly-owned subsidiary entered into a sales and purchase agreement to sell 5% equity interests in a non-wholly owned subsidiary (the "Subsidiary") to an independent third party at a consideration of HK\$8,400,000. Further, two directors of the Company granted a put option to the independent third party to sell the equity interests to the two directors, for a period up to and including 31st October 2006, at HK\$0.84 per share plus interest at a rate of 6% per annum.

The disposal was completed on 2nd September 2005 after obtaining the independent shareholders' approval of the Company at an Extraordinary General Meeting held on 30th August 2005.

After the disposal, the effective interest of the Company in the Subsidiary decreased from 50.75% to 45.75% and thus the Subsidiary ceased to be a subsidiary of the Company.

- (b) On 31st August 2005, the Company entered into a provisional agreement to sell an investment property to an independent third party at a consideration of HK\$528,110,000. To enable the purchaser to have an investment return in line with the current market condition, the Company shall provide the purchaser with a top up payment of HK\$33,110,000 over 24 months. Completion of the disposal is subject to and conditional upon the due compliance of all requirements under the Listing Rules.