



# NAM FONG INTERNATIONAL HOLDINGS LIMITED

## 南方國際控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1176)

### INTERIM REPORT 2005

The Directors of Nam Fong International Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 as follows:

#### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2005

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)
Turnover	2,3	49,809	9,589
Cost of properties sold and rental outgoings		(57,083)	(2,596)
Gross (loss)/profit		(7,274)	6,993
Other revenue	3	57,502	41
Selling expenses		—	(46)
Administrative expenses		(7,562)	(7,908)
Other net operating income/(expenses)	4	21,504	(2,649)
Provision for claims		92,130	(6,550)
Profit/(loss) from operations		156,300	(10,119)
Finance costs		323	(3,098)
Profit/(loss) before taxation	5	156,623	(13,217)
Taxation	6	(10,555)	—
Net Profit/(loss) attributable to shareholders		146,068	(13,217)
Basic profit/(loss) per share	7	10.74 cents	(0.97) cent

#### CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

(Expressed in Hong Kong dollars)

	Note	30 June 2005 \$'000 (Unaudited)	31 December 2004 \$'000 (Audited)
<b>Non-current assets</b>			
Fixed assets		333	355
Investment properties		682,737	735,000
Properties held for/under development	8	307,226	404,989
<b>Total non-current assets</b>		990,296	1,140,344
<b>Current assets</b>			
Inventory of completed properties	9	3,639	3,639
Accounts receivable	10	123	123
Prepayments, deposits and other receivables		13,104	17,766
Pledged bank deposit		451	451
Cash and bank balances		119	85
<b>Total current assets</b>		17,436	22,064
<b>Current liabilities</b>			
Accounts payable	11	165,226	183,567
Accruals and other payables		165,160	403,646
Short-term borrowings	12	11,451	42,728
Taxation payable	6	462,319	449,774
Unclaimed dividends		—	25,024
<b>Total current liabilities</b>		804,156	1,104,739
<b>Net current liabilities</b>		(786,720)	(1,082,675)
<b>Net assets</b>		203,576	57,669
Representing:			
Share capital		136,000	136,000
Reserves		67,576	(78,331)
<b>Shareholders' funds</b>	13	203,576	57,669

\* For identification purposes only

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 30 June 2005**  
*(Expressed in Hong Kong dollars)*

	Share capital \$'000	Share premium \$'000	Investment property revaluation reserve \$'000	Reserve on merger accounting \$'000	Capital reserve \$'000	Exchange fluctuation reserve \$'000	Accumulated losses \$'000	Total \$'000
<i>(Unaudited)</i>								
At 1 January 2004	136,000	906,000	201,704	(101,922)	14,326	4,387	(1,003,546)	156,949
Translation of financial statements of subsidiaries	—	—	—	—	—	3,621	—	3,621
Net loss for the period	—	—	—	—	—	—	(13,217)	(13,217)
At 30 June 2004	<u>136,000</u>	<u>906,000</u>	<u>201,704</u>	<u>(101,922)</u>	<u>14,326</u>	<u>8,008</u>	<u>(1,016,763)</u>	<u>147,353</u>
<i>(Unaudited)</i>								
At 1 January 2005	136,000	906,000	165,301	(101,922)	14,326	(3,598)	(1,058,438)	57,669
Opening balance adjustments under HKFRSs	—	—	—	—	—	—	—	—
Adoption of HKAS 40	—	—	(165,301)	—	—	—	165,301	—
As restated	136,000	906,000	—	(101,922)	14,326	(3,598)	(893,137)	57,669
Translation of financial statements of subsidiaries	—	—	—	—	—	(161)	—	(161)
Net profit for the period	—	—	—	—	—	—	146,068	146,068
At 30 June 2005	<u>136,000</u>	<u>906,000</u>	<u>—</u>	<u>(101,922)</u>	<u>14,326</u>	<u>(3,759)</u>	<u>(747,069)</u>	<u>203,576</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**For the six months ended 30 June 2005**  
*(Expressed in Hong Kong dollars)*

	<b>Six months ended 30 June</b>	
	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash outflow from operating activities	<b>(33,345)</b>	(2,610)
Net cash inflow/(outflow) from investing activities	<b>52,316</b>	(1,225)
Net cash (outflow)/inflow from financing activities	<b>(18,776)</b>	2,685
Increase/(decrease) in cash and cash equivalents	<b>195</b>	(1,150)
Effect of foreign exchange rates	<b>(161)</b>	844
Cash and cash equivalents at 1 January	<b>85</b>	610
Cash and cash equivalents at 30 June	<b><u>119</u></b>	<u>304</u>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash at bank and in hand	<b>119</b>	304
	<b><u>119</u></b>	<u>304</u>

## NOTES TO THE ACCOUNTS

### 1. Basis of preparation

#### (a) Going concern

As at 30 June 2005, the Group had other borrowings together with relevant interest of approximately HK\$13,544,000. The directors have been (i) in negotiations with new or existing bankers and third parties with a view to obtaining new facilities and/or renewals of the existing facilities granted to the Group; and (ii) closely monitoring the disposal of properties to raise funds.

The directors have considered the liquidity of the Group in light of the above and the funding requirements of the Group for the foreseeable future. The directors expect that the existing business and raising fund arrangements will generate sufficient cash flow to meet its financial obligations and liabilities and funding requirements for the development of the Group's property project. Accordingly, the financial statements have been prepared on a going concern basis.

#### (b) Others

This interim financial report is unaudited, but has been reviewed by the audit committee. The interim financial report has been prepared in accordance with the requirements of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in these unaudited condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("new HKFRSs") and Hong Kong Accounting Standards which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial report has been prepared in accordance with those HKFRSs and interpretations issued and effective as at the time of preparing this information (September 2005). The HKFRSs and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial report.

Impacts on the Group's financial statements due to the new HKFRSs are as follows:

- (i) The adoption of HKAS 18 — Revenue and Interpretation 3 — Revenue — Pre-completion Contracts For the Sale of Development Properties

Revenue from sales of properties is recognised upon completion of sale agreements, which refers to the time when the relevant properties have been completed and delivered to the purchasers pursuant to the sale agreements to opposed to the stage of completion method used in previous years.

The Group chooses not to apply this standard retrospectively to pre-completion contracts for the sale of development properties entered into before 1 January 2005. The Group shall continue to account for those contracts using the method of accounting used prior to the application of this Interpretation. The Group shall confirm the application of such interpretation for pre-completion contracts for the sale of development properties entered into on or after 1 January 2005 and recognize revenue on completion of the contract work.

- (ii) The adoption of HKAS 40 — Investment Property

The adoption of HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the income statement as part of other revenue. In previous years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

Since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in investment properties revaluation reserve.

The adoption of HKAS 40 resulted in an increase in opening retained earnings 1 January 2005 of HK\$165,301,000 and a decrease in opening other reserves at 1 January 2005 of HK\$165,301,000.

No early adoption of the following new Standards or Interpretations 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.

HKFRS 6	Exploration for and valuation of mineral resources
HKAS 19	(Amendment) Actuarial gains and losses, group plans and disclosures
HKAS 39	(Amendment) Transitional initial recognition of financial assets and financial liabilities
HKAS 39	(Amendment) The fair value option
HKFRS-Int 4	Determining whether an arrangement contains a lease
HKFRS-Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

NOTES TO THE ACCOUNTS (Cont'd)

2. Turnover

Turnover comprises gross proceeds from sales of properties and rental income less sales tax.

3. Turnover, revenues and segment information

(a) Turnover and revenues

	Six months ended 30 June	
	2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)
Turnover		
Proceeds from sales of properties		
— completed properties	—	626
— investment properties	32,935	—
	<u>32,935</u>	<u>626</u>
Rental income	16,874	8,963
	<u>49,809</u>	<u>9,589</u>
Other revenue		
Interest income	—	1
Reversal of unclaimed dividends	25,024	—
Waiver of bank loan	12,501	—
Waiver of construction contracts	16,670	—
Others	3,307	40
	<u>57,502</u>	<u>41</u>

(b) Segment information

A segmental analysis of the Group's principal activities is as follows:

	Property sales Six months ended 30 June		Property rental Six months ended 30 June		Total Six months ended 30 June	
	2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)	2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)	2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)
By principal activity						
<b>TURNOVER</b>						
External revenue	<u>32,935</u>	<u>626</u>	<u>16,874</u>	<u>8,963</u>	<u>49,809</u>	<u>9,589</u>
<b>RESULTS</b>						
Segment result	<u>88,031</u>	<u>595</u>	<u>13,804</u>	<u>6,398</u>	101,835	6,993
Other revenue					62,027	41
Unallocated corporate expenses					(7,562)	(17,153)
Finance costs					323	(3,098)
Profit/(loss) before tax					156,623	(13,217)
Taxation					(10,555)	—
Net profit/(loss) attributable to shareholders					<u>146,068</u>	<u>(13,217)</u>

NOTES TO THE ACCOUNTS (Cont'd)

3. Turnover, revenues and segment information (Cont'd)

(b) Segment information (Cont'd)

	30 June 2005 \$'000 (Unaudited)	31 December 2004 \$'000 (Audited)	30 June 2005 \$'000 (Unaudited)	31 December 2004 \$'000 (Audited)	30 June 2005 \$'000 (Unaudited)	31 December 2004 \$'000 (Audited)
<b>ASSETS</b>						
Segment assets	<u>313,849</u>	<u>423,004</u>	<u>692,648</u>	<u>737,650</u>	<u>1,006,497</u>	1,160,654
Unallocated corporate Assets					<u>1,235</u>	<u>1,754</u>
Consolidated total Assets					<u><u>1,007,732</u></u>	<u><u>1,162,408</u></u>
<b>LIABILITIES</b>						
Segment liabilities	<u>257,352</u>	<u>421,131</u>	<u>92,130</u>	<u>62,223</u>	<u>349,482</u>	483,354
Unallocated corporate Liabilities					<u>454,674</u>	<u>621,385</u>
Consolidated total Liabilities					<u><u>804,156</u></u>	<u><u>1,104,739</u></u>
<b>OTHER INFORMATION</b>						
Capital expenditure					<u>238</u>	<u>2,068</u>
Depreciation					<u>20</u>	<u>51</u>

No geographical analysis is shown as all the Group's assets, liabilities, turnover and loss from operations are derived from activities in the People's Republic of China (the "PRC").

4. Other net operating income/(expenses)

	Six months ended 30 June	
	2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)
Gain on disposal of investments in subsidiaries	20,448	—
Provision for doubtful debts for receivables and prepayments	—	(2,910)
Written back of provision for doubtful debts	<u>1,056</u>	<u>261</u>
	<u><u>21,504</u></u>	<u><u>(2,649)</u></u>

5. Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)
Cost of properties sold	54,013	2,595
Interest on borrowings	<u>329</u>	<u>3,097</u>
Waiver of interest expenses	<u>(652)</u>	<u>—</u>
	<u>(323)</u>	<u>3,097</u>
Depreciation charges	20	28
Provision of claims	<u>(92,130)</u>	<u>6,550</u>

6. Taxation

- (a) No provision for Hong Kong profits tax is required since there is no assessable profit for the period and the Group's income is derived from sources outside Hong Kong, which is not liable to Hong Kong profits tax. (30 June 2004: Nil)
- (b) The Group is subject to the enterprise income tax rate of 33% on the assessable profit for the period in accordance with the income tax law of the PRC. (30 June 2004: Nil)
- (c) Based on the information available, the directors considered that the taxation of the Group at 30 June 2005 was adequately provided for in the financial statements.

**NOTES TO THE ACCOUNTS (Cont'd)**

**7. Earnings/(loss) per share**

(a) *Basic earning per share*

The calculation of the basic earning per share is based on the net profit for the period of approximately HK\$146,068,000 (30 June 2004: loss of approximately HK\$13,217,000) and on 1,360,000,000 (30 June 2004: 1,360,000,000) ordinary shares in issue during the period.

(b) *Diluted earning per share*

Diluted earning per share is not presented because there were no dilutive potential ordinary shares in existence for the six months ended 30 June 2005 and 2004 and the share options outstanding during period had no dilution effect on earning per share.

**8. Property held for/under development**

(a) All the properties held for/under development are located in the PRC.

(b) Properties held for/under development relate to the acquisition of the land use rights for a number of land sites within the Guangdong Province with total carrying value of HK\$ 307,226,000 (30 June 2004: HK\$386,372,000).

Pursuant to the sale of land contract regarding the aforesaid property development projects refer to in above, unless the costs of which have been settled within a scheduled period, the land sites will be treated as idle sites which could result in forfeiture of payments made to the vendors, termination of the sale of land contract and receipt of the late payments penalties. As at 30 June 2005, the total carrying value of these projects was HK\$307,226,000. The aforesaid property development projects have not been received any guidance issued by the relevant land management bureau of PRC during the period, the Group will concern any new progress closely.

**9. Inventory of completed properties**

The carrying amount of inventory of completed properties held for sales carried at net realizable value was approximately HK\$3,639,000 (31 December 2004: approximately HK\$3,639,000).

**10. Accounts receivable**

The ageing analysis of accounts receivable as at 30 June 2005 is as follows:—

	<b>At 30 June 2005 \$'000 (Unaudited)</b>	At 31 December 2004 \$'000 (Audited)
Within 3 months	—	91
4 — 6 months	—	33
7 — 12 months	<b>91</b>	506
Over 1 year	<b>6,077</b>	5,538
	<b>6,167</b>	6,167
<i>Less:</i> Provision for doubtful debts	<b>(6,044)</b>	(6,044)
	<b><u>123</u></b>	<b><u>123</u></b>

**11. Accounts payable**

The ageing analysis of accounts payable as at 30 June 2005 is as follows:—

	<b>At 30 June 2005 \$'000 (Unaudited)</b>	At 31 December 2004 \$'000 (Audited)
Within 3 months	—	—
4 — 6 months	—	—
7 — 12 months	—	3
Over 1 year	<b>165,226</b>	183,564
	<b><u>165,226</u></b>	<b><u>183,567</u></b>

NOTES TO THE ACCOUNTS (Cont'd)

12. Short-term borrowings

Short-term borrowings comprise:

	At 30 June 2005 \$'000 (Unaudited)	At 31 December 2004 \$'000 (Audited)
Bank loans	—	31,277
Other loans	<u>11,451</u>	<u>11,451</u>
	<u><b>11,451</b></u>	<u><b>42,728</b></u>
Analysed as:		
Secured	<u>9,000</u>	40,277
Unsecured	<u>2,451</u>	<u>2,451</u>
	<u><b>11,451</b></u>	<u><b>42,728</b></u>

13. Shareholders' equity

There was no movement in the share capital of the Company during the period under review.

	Share premium \$'000	Investment property revaluation reserve \$'000	Reserve on merger accounting \$'000	Capital reserve \$'000	Exchange fluctuation reserve \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2004	906,000	201,704	(101,922)	14,326	4,387	(1,003,546)	20,949
Translation of financial statements of subsidiaries	—	—	—	—	3,621	—	3,621
Net loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(13,217)</u>	<u>(13,217)</u>
At 30 June 2004	906,000	201,704	(101,922)	14,326	8,008	(1,016,763)	11,353
Revaluation deficit	—	(15,037)	—	—	—	—	(15,037)
Translation of financial statements of subsidiaries	—	—	—	—	(11,606)	—	(11,606)
Transfer to income statement on disposal	—	(21,366)	—	—	—	—	(21,366)
Net loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(41,675)</u>	<u>(41,675)</u>
At 31 December 2004 (Audited)	<u>906,000</u>	<u>165,301</u>	<u>(101,922)</u>	<u>14,326</u>	<u>(3,598)</u>	<u>(1,058,438)</u>	<u>(78,331)</u>
At 1 January 2005	906,000	165,301	(101,922)	14,326	(3,598)	(1,058,438)	(78,331)
Opening balance adjustments under HKFRSs Adoption of HKAS 40	<u>—</u>	<u>(165,301)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>165,301</u>	<u>—</u>
As restated	906,000	—	(101,922)	14,326	(3,598)	(893,137)	(78,331)
Translation of financial statements of subsidiaries	—	—	—	—	(161)	—	(161)
Net profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>146,068</u>	<u>146,068</u>
At 30 June 2005 (Unaudited)	<u>906,000</u>	<u>—</u>	<u>(101,922)</u>	<u>14,326</u>	<u>(3,759)</u>	<u>(747,069)</u>	<u>67,576</u>

NOTES TO THE ACCOUNTS (Cont'd)

14. Capital commitments

As at 30 June 2005, the Group had capital commitments not provided for in these financial statements as follows:

	At 30 June 2005 \$'000 (Unaudited)	At 31 December 2004 \$'000 (Audited)
Capital commitments in respect of construction in progress — contracted but not provided for	<u>32,976</u>	<u>236,134</u>

15. Material contingent liabilities

- (a) The Group has executed guarantees to banks for mortgage facilities granted to first buyers of certain properties of the Group in the PRC. The utilized amounts of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group at the balance sheet date amounted to approximately HK\$54,486,000 (31 December 2004: HK\$50,444,000).
- (b) A subsidiary of the Group was sued by a contractor for default payments of approximately HK\$17,378,000 (31 December 2004: approximately HK\$17,357,000) in relation to construction work carried out in one of the property development projects in Guangzhou. The Group counter-claimed against the contractor for inferior construction work performed on that site. The litigation is in the process of finalization, pending the decision from court in Guangzhou.
- (c) Purchase considerations of the land sites of the Group's properties held for/under development totalling HK\$93,875,000 (31 December 2004: approximately HK\$143,126,000) was overdue as at 30 June 2005. Pursuant to the terms of the purchase agreements, the delay in payment could result in termination of the purchase agreements and late payments penalties. In addition, the vendors could take legal action against the Group for compensation.

Save as disclosed above, neither the Company nor any members of the Group are engaged in any litigation or arbitration of material importance and, so far as the directors are aware, no litigation or arbitration of material importance is pending or threatened against any members of the Group.



## INTERIM DIVIDEND

The directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

#### 1. *Property Investment*

The Group's major property investment remained at Liwan Plaza, with a gross floor area of 66,546 square meter, which is located at Shang Xia Jiu Road, Liwan District, Guangzhou, the People's Republic of China (the "PRC"). During the period ended 30 June 2005, the proceeds from the sale of investment properties at Liwan Plaza amounted to approximately HK\$32,935,000.

#### 2. *Property Development*

The Group currently has two major property development projects and owns a land of approximately 198,950 square meter. The construction works of Yue Xiu Plaza project, one of the Group's properties under development (PUD), has commenced with full speed, progressing to the eighth floor. Sales is expected to be commenced in the middle of 2006. The main block and various supporting facilities are expected to be wholly completed by the end of 2006.

Another PUD project, Phase II of Jiangnan Nam Fong Garden which is located at Chang Gang Road, is now in the stage of undergoing the documentation procedures for construction according to the PRC's rules and regulations relating to real estate development. Construction of the project is expected to commence by the end of 2005.

The Group's Management will also identify for good quality sites with high appreciation potential in Guangzhou, Shenzhen, Zhuhai and other major cities in the Pearl River Delta Region, to replenish its land.

### Financial Review

The Group report a turnover of HK\$49,809,000 (30 June 2004: HK\$9,589,000) and consolidated profit attributed to shareholders amounted to HK\$146,068,000 (30 June 2004: loss of approximately HK\$13,217,000) for the period ended 30 June 2005. The reported profit represented a 1205% increase as compared with that of the trading result of the corresponding period in 2004.

As at 30 June 2005, the total borrowings of the Group amounted to approximately HK\$13,544,000 and the gearing ratio (calculated as the ratio of net borrowings to shareholders' funds) was 6.7%, as compared to the respective total borrowings and gearing ratio of approximately HK\$42,728,000 and 74.1% as at 31 December 2004.

Since the cash or cash equivalents held, borrowings, revenue and expenses of the Group are denominated in either Hong Kong dollars or Chinese Renminbi or United States dollars, the Group does not anticipate any material foreign exchange exposure. There was neither foreign currency hedging activity nor financial instrument for hedging purposes during the period.

### Prospects

In 2005, Ministry of Construction, People's Bank of China and relevant authorities increase control over regulation for the development and sales of the domestic real estates, in order to stabilize the selling prices of domestic commodities properties and to promote a steady development of domestic property sector. Currently, the general consumption power in the Pearl River Delta Region is increasing steadily. Together with the consumption power arising from Non-Pearl River Delta Region which is increasing substantially, the property sector in the Pearl River Delta Region is directly benefited. The market value of the properties held by the Group is continuously on the rise in the recent half year, and the liquidity of these properties also improves. Furthermore, the land of the Group has become a resource of scarcity. It is expected that development of new properties will foster fruitful return to the Group.

The Group has upgraded its level of operation and management by streamlining its management structure, well-defining the job duties of various positions and refining its own business flow and internal control system in recent years. In the meantime, the Group has strived to improve its status of working capital. Through the operation of these years, its financial structure features by self-financing and a financing cycle on a rolling basis has been basically established. At present, the Group is well positioned to co-operate with some tremendous international capital resources in all aspects. To cope with this, the Group will offer its strength of land, talents and the experience in development and management of real estates. Taking this opportunity, the Group is anticipated to embrace a new era of booming growth.

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group had approximately 80 (31 December 2004: approximately 80) employees in Hong Kong and the PRC. They are remunerated according to the job nature, market conditions, individual performance and qualifications. Other staff benefits include share option scheme and year end bonus.

### DIRECTORS' INTERESTS IN SHARES

As at 30 June 2005, none of the directors and chief executive of the Company had, under Part XV of the Securities and Futures Ordinance, nor were they taken to or deemed to have under such provisions of the Securities and Futures Ordinance, any interests in the shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the Securities and Futures Ordinance or any interests which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

## ARRANGEMENT TO PURCHASE SHARES

Under the share option scheme, the directors may, at their discretion, offer an option to any director or employee of the Company or any subsidiary to subscribe for shares of the Company, subject to the terms and conditions of the scheme.

During the period under review, no option was granted to or exercised under the share option scheme.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the directors or the chief executives of the Company, or their spouses or children under the age of 18, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, in addition to the interests disclosed above in respect of the directors, the register of substantial shareholders kept under section 336 of the Securities and Futures Ordinance showed that the Company had been notified of the following substantial shareholders' interests being 5% or more of the issued share capital of the Company:

Name of Shareholders	Number of ordinary shares	Percentage of issued share capital
Great Capital Holdings Limited ("GCH")	429,162,000 <sup>Note(1)</sup>	31.56%
Sinowin Enterprises Limited	405,280,000	29.80%
Campiche Management Limited	68,205,210	5.02%

*Note:*

- (1) GCH had pledged a total of 264,162,000 shares of the Company to secure banking facilities for the group companies of GCH. As of the date of this report, the Company's directors are not aware of or have not been informed of any charge of this arrangement.

Save as disclosed above, so far as are known to the directors, the Company has not been notified of any interest in the issued share capital of the Company required to be recorded under section 336 of the Securities and Futures Ordinance as at 30 June 2005.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the period under review.

## CODE ON CORPORATE GOVERNANCE

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices, as set out in Appendix 14 ("Appendix 14") of the Listing Rules throughout the six months ended 30 June 2005.

The Company does not fully comply with code provisions A.2.1, A.4.1 and A.4.2 in Appendix 14. Under code provision A.2.1, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not at present have any officer with the title "chief executive officer". The Board has chairman and deputy chairman who provide leadership to the Board in terms of establishing policies and business directions. In light of maintaining a lean corporate structure which is conducive to strong and effective leadership, the Board opines that it is not necessary to appoint a chief executive officer at the present moment.

Under code provision A.4.1, independent non-executive director should be appointed for a specific term and subject to re-election. Under code provision A.4.2, all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. All the Independent Non-Executive Directors of the Company are not appointed for a specific terms. All Directors (except for the Chairman) are subject to rotation in annual general meeting pursuant to the Company's Articles of Association.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Upon enquiry of the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2005.

## AUDIT COMMITTEE

The Company has Audit Committee which was established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The interim results for the six months ended 30 June 2005 have been reviewed by the Audit Committee.

## SHAREHOLDERS' MEETING

The Company's Annual General Meeting was held on 20 June 2005 during which all the resolutions set out in the Company's Notice of Annual General Meeting dated 26 April 2005 were passed.

By Order of the Board  
**Tong Shi Jun**  
Chairman

Hong Kong, 26 September 2005