Interim Report 2005-2006

祥泰行集團有限公司
CHEUNG TAI HONG HOLDINGS LIMITED
Since 1950 創立

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Cheung Hon Kit *(Chairman)*
Chan Fut Yan *(Managing Director)*
Tse Cho Tseung

Non-executive Directors

Ho Hau Chong, Norman *(Deputy Chairman)*
Lo Lin Shing, Simon

Independent Non-executive Directors

Wong Chi Keung, Alvin
Kwok Ka Lap, Alva
Chui Sai Cheong

COMMITTEES

Audit Committee

Wong Chi Keung, Alvin *(Chairman)*
Kwok Ka Lap, Alva
Chui Sai Cheong

Remuneration Committee

Wong Chi Keung, Alvin *(Chairman)*
Chan Fut Yan
Kwok Ka Lap, Alva

COMPANY SECRETARY

Yan Ha Hung, Loucia

QUALIFIED ACCOUNTANT

Cheung Chi Kit

AUTHORISED REPRESENTATIVES

Cheung Hon Kit
Cheung Chi Kit
Yan Ha Hung, Loucia *(Alternate to Cheung Chi Kit)*

SOLICITORS

Conyers Dill & Pearman *(Bermuda)*
Iu, Lai & Li *(Hong Kong)*
Vincent T. K. Cheung, Yap & Co. *(Hong Kong)*

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Dah Sing Bank, Limited
Wing Hang Bank, Limited
BNP Paribas Hong Kong Branch
Citic Ka Wah Bank Limited
UBS, AG

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE IN HONG KONG

29/F., Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
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Hong Kong

WEBSITE

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STOCK CODE

Hong Kong Stock Exchange	199
Reuters	0199.HK
Bloomberg	199 HK

INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHEUNG TAI HONG HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 4 to 21.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19th December, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2005

	NOTES	Six months ended 30.9.2005 (unaudited) HK$'000	Six months ended 30.9.2004 (unaudited) HK$'000
Turnover	4	**426,380**	175,398
Cost of sales		**(370,651)**	(125,505)
Gross profit		**55,729**	49,893
Other income		**6,830**	289
Distribution costs		**(33,043)**	(24,733)
Administrative expenses		**(20,099)**	(13,651)
Other expenses		**(304)**	–
Gain arising from change in fair value of financial assets at fair value through profit or loss		**216**	–
Gain on disposal of investments in securities		**–**	53
Amortisation of goodwill arising on acquisition of subsidiaries		**–**	(478)
Impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries		**(11,000)**	–
Loss on disposal of investment properties		**–**	(3,217)
Unrealised holding loss of investments held for trading/other investments		**(5,330)**	(4,696)
Finance costs	5	**(9,940)**	(4,011)
Loss before taxation	6	**(16,941)**	(551)
Taxation	7	**(819)**	(466)
Loss for the period attributable to equity holders of the parent		**(17,760)**	(1,017)
Loss per share	9		
– Basic		**(4.4 cents)**	(0.8 cents)
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2005

	NOTES	30.9.2005 (unaudited) HK$'000	31.3.2005 (restated) HK$'000
Non-current assets			
Property, plant and equipment	10	62,666	64,353
Prepaid lease payments		1,350	1,365
Intangible assets		3,043	2,015
Goodwill		10,885	21,885
		77,944	89,618
Current assets			
Inventories		73,377	59,280
Debtors, deposits and prepayments	11	429,610	38,280
Loan receivables		49,814	31,500
Prepaid lease payments		30	30
Properties held for sale		58,547	58,536
Investments in securities		–	10,289
Investments held for trading		53,052	–
Financial assets at fair value through profit or loss		26,840	–
Pledged bank deposits		3,000	3,000
Bank balances and cash		669,511	187,980
		1,363,781	388,895
Current liabilities			
Creditors and accrued charges	12	77,145	62,772
Tax payable		62	1,041
Obligations under a finance lease – due within one year		33	23
Promissory note payables		–	13,000
Convertible note payables	13	353	180
Bank and other borrowings – due within one year		49,053	62,146
		126,646	139,162
Net current assets		1,237,135	249,733
Total assets less current liabilities		1,315,079	339,351
Non-current liabilities			
Obligations under a finance lease – due after one year		91	119
Bank and other borrowings – due after one year		1,875	5,625
Convertible note payables	13	901,333	84,803
		903,299	90,547
Net assets		411,780	248,804
Capital and reserves			
Share capital	15	4,086	3,610
Reserves		406,770	245,194
Equity attributable to equity holders of the parent		410,856	248,804
Minority interests		924	–
Total equity		411,780	248,804

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2005

	Attributable to equity holders of the parent										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Other reserve	Special reserve	Translation reserve	Accumulated profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April, 2004	1,277	2,071	646	–	32,308	(8,908)	–	102,782	130,176	–	130,176
Exchange differences arising on operations outside Hong Kong and income recognised directly in equity	–	–	–	–	–	–	645	–	645	–	645
Loss for the period	–	–	–	–	–	–	–	(1,017)	(1,017)	–	(1,017)
Total recognised income and expense for the period	–	–	–	–	–	–	645	(1,017)	(372)	–	(372)
Exercise of share options	11	227	–	–	–	–	–	–	238	–	238
At 30th September, 2004	1,288	2,298	646	–	32,308	(8,908)	645	101,765	130,042	–	130,042
Exchange differences arising on operations outside Hong Kong and loss recognised directly in equity	–	–	–	–	–	–	(18)	–	(18)	–	(18)
Profit for the period	–	–	–	–	–	–	–	13,279	13,279	–	13,279
Total recognised income and expense for the period	–	–	–	–	–	–	(18)	13,279	13,261	–	13,261
Recognition of equity component of convertible notes	–	–	–	3,466	–	–	–	–	3,466	–	3,466
Exercise of share options	1	–	–	–	–	–	–	–	1	–	1
Issue of shares	1,750	78,500	–	–	–	–	–	–	80,250	–	80,250
Conversion of convertible notes	571	24,182	–	(346)	–	–	–	–	24,407	–	24,407
Expenses incurred in connection with issue of shares	–	(2,623)	–	–	–	–	–	–	(2,623)	–	(2,623)
At 31st March, 2005 as restated	3,610	102,357	646	3,120	32,308	(8,908)	627	115,044	248,804	–	248,804
Exchange differences arising on operations outside Hong Kong and income recognised directly in equity	–	–	–	–	–	–	31	–	31	–	31
Loss for the period	–	–	–	–	–	–	–	(17,760)	(17,760)	–	(17,760)
Total recognised income and expense for the period	–	–	–	–	–	–	31	(17,760)	(17,729)	–	(17,729)
Recognition of equity component of convertible notes	–	–	–	160,914	–	–	–	–	160,914	–	160,914
Conversion of convertible notes	476	19,084	–	(693)	–	–	–	–	18,867	–	18,867
Capital contribution of minority shareholders	–	–	–	–	–	–	–	–	–	924	924
At 30th September, 2005	4,086	121,441	646	163,341	32,308	(8,908)	658	97,284	410,856	924	411,780

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2005

	Six months ended	
	30.9.2005	30.9.2004
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net cash from operating activities	**4,072**	59,470
Net cash used in investing activities		
Proceeds from disposal of investments held for trading	**282,406**	1,416
Refundable earnest monies paid	**(390,000)**	–
Acquisition of investments held for trading	**(326,500)**	–
Other investing cash flows	**(45,268)**	(19,136)
	(479,362)	(17,720)
Net cash from (used in) financing activities		
Proceeds from issue of convertible notes	**988,867**	–
New bank and other borrowings raised	**473**	56,536
Repayment of promissory notes	**(13,000)**	–
Repayment of bank and other borrowings	**(17,316)**	(112,844)
Other financing cash flows	**(2,234)**	(2,696)
	956,790	(59,004)
Net increase (decrease) in cash and cash equivalents	**481,500**	(17,254)
Cash and cash equivalents at beginning of the period	**187,980**	80,136
Effect of foreign exchange rate changes	**31**	527
Cash and cash equivalents at end of the period	**669,511**	63,409
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**669,511**	64,025
Bank overdrafts	**–**	(616)
	669,511	63,409

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("**HKFRS(s)**"), Hong Kong Accounting Standards ("**HKAS(s)**") and Interpretations (hereinafter collectively referred to as "**new HKFRSs**") issued by the HKICPA that are effective for the accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business Combinations

In the current period, the Group has applied the transitional provisions of HKFRS 3 "Business Combinations" to goodwill acquired in business combinations for which the agreement date was before 1st January, 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("**equity-settled transactions**"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("**cash-settled transactions**"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to share options granted before 1st April, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st April, 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st April, 2005. Because there were no unvested share options at 1st April, 2005 and no share options have been granted during the period, the adoption of HKFRS 2 has had no impact on the Group's results for the current or prior accounting periods.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible loan note payables issued by the Company that contain both liability and equity components. The liability component is classified as a liability while the equity component is grouped under the reserves of the Company. Previously, convertible note payables were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Liabilities as at 31st March, 2005 have been decreased by HK$5,197,000 with an increase in accumulated profits of HK$2,324,000 and an increase in reserves by HK$2,873,000.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Financial Instruments *(Cont'd)*

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("**SSAP 24**"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st April, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Investments in securities classified under current assets with a carrying amount of HK$10,289,000 were classified to investments held for trading.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. During the period, the Group has acquired and designed all equity-linked notes as "financial assets at fair value through profit or loss". The adoption of HKAS 39 has had no material effect in the Group's accumulated profits.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Potential Impact of New HKFRSs not yet Adopted

The Group has not early applied the following new HKFRSs that have been issued but are not effective:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior periods are as follows:

	Effect of adopting	Six months ended 30.9.2005	Six months ended 30.9.2004
		HK$'000	*HK$'000*
Increase in impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	HKFRS 3	**(573)**	–
Decrease in amortisation of goodwill	HKFRS 3	**573**	–
Increase in interest on the liability component of convertible notes	HKAS 32	**(7,443)**	–
Gain arising from changes in fair value of financial assets at fair value through profit or loss	HKAS 39	**216**	–
Increase in loss for the period		**(7,227)**	–

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March, 2005 (originally stated)	Effect of HKAS 17	Effect of HKAS 32	As at 31st March, 2005 (restated)	Effect of HKAS 39	As at 1st April, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items						
Property, plant and equipment	65,748	(1,395)	–	64,353	–	64,353
Prepaid lease payment	–	1,395	–	1,395	–	1,395
Investments in securities	10,289	–	–	10,289	(10,289)	–
Investments held for trading	–	–	–	–	10,289	10,289
Creditors and accrued charges	(62,952)	–	180	(62,772)	–	(62,772)
Convertible note payables						
– current portion	–	–	(180)	(180)	–	(180)
– non-current portion	(90,000)	–	5,197	(84,803)	–	(84,803)
Total effects on assets and liabilities	(76,915)	–	5,197	(71,718)	–	(71,718)
Share premium	102,604	–	(247)	102,357	–	102,357
Accumulated profits	112,720	–	2,324	115,044	–	115,044
Capital reserve – equity component of convertible notes	–	–	3,120	3,120	–	3,120
Total effects on equity	215,324	–	5,197	220,521	–	220,521

4. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four main operating segments- manufacturing and trading of medicine and health foods, motorcycles, property development and securities investment. These divisions are the bases on which the Group reports its primary segment information.

Six months ended 30th September, 2005

	Medicine and health food *HK$'000*	Motorcycles *HK$'000*	Property *HK$'000*	Securities investment *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External sales	138,427	5,547	–	282,406	426,380
SEGMENT RESULTS	5,878	186	259	(1,190)	5,133
Unallocated corporate income					5,313
Unallocated corporate expenses					(6,447)
Impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	(11,000)	–	–	–	(11,000)
Finance costs					(9,940)
Loss before taxation					(16,941)
Taxation					(819)
Loss for the period					(17,760)

4. SEGMENT INFORMATION *(Cont'd)*

Six months ended 30th September, 2004

	Medicine and health food *HK$'000*	Motorcycles *HK$'000*	Property *HK$'000*	Consolidated *HK$'000*
TURNOVER				
External sales	107,080	7,673	60,645	175,398
SEGMENT RESULTS	601	253	9,611	10,465
Unallocated corporate expenses				(7,005)
Finance costs				(4,011)
Loss before taxation				(551)
Taxation				(466)
Loss for the period				(1,017)

5. FINANCE COSTS

	Six months ended	
	30.9.2005	30.9.2004
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	**1,555**	2,719
Promissory notes	**210**	290
Convertible notes	**8,175**	122
Loan arrangement fees	**–**	880
	9,940	4,011

6. LOSS BEFORE TAXATION

	Six months ended	
	30.9.2005	30.9.2004 (restated)
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**4,923**	4,209
Amortisation of prepaid lease payments	**15**	12
Amortisation of intangible assets included in administrative expenses	**29**	4
Loss on disposal of property, plant and equipment	**260**	53
Bad debts recovered	**–**	(1)

7. TAXATION

The taxation represents provision for income tax in the People's Republic of China (the "**PRC**").

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDENDS

No dividends were paid during the period (six months ended 30th September, 2004: Nil). The directors do not recommend the payment of an interim dividend.

9. LOSS PER SHARE

The calculation of the basic loss per share attributable to equity holders of the parent is based on the following data:

	Six months ended	
	30.9.2005	30.9.2004
	HK$'000	*HK$'000*
Loss for the period	**17,760**	1,017
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic loss per share	**403,150,067**	128,739,049

No diluted loss per share has been presented because the exercise of the share options and the conversion of the convertible notes would result in a decrease in loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$4,092,000 on acquisition of property, plant and equipment. In addition, the Group disposed of certain plant and equipment with a carrying amount of approximately HK$856,000 for proceeds of HK$596,000, resulting in a loss on disposal of approximately HK$260,000.

At 30th September, 2005, certain equipment of the Group with an aggregate net book value of approximately HK$11,587,000 (31st March, 2005: HK$11,959,000) were pledged to a bank to secure general banking facilities granted to the Group.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows credit period ranging from 0 to 30 days to its trade customers.

The following is an aged analysis of trade debtors at the balance sheet date:

	30.9.2005	31.3.2005
	HK$'000	*HK$'000*
0 – 30 days	**18,247**	16,067
31 – 60 days	**1,044**	269
61 – 90 days	**775**	11,336
Over 90 days	**849**	–
	20,915	27,672
Refundable earnest money *(Note)*	**390,000**	–
Other debtors, deposits and prepayments	**18,695**	10,608
	429,610	38,280

Note: In June 2005, a wholly-owned subsidiary of the Company and an independent third party (the "**Vendor**") signed a non-binding letter of intent with a view of negotiating a possible acquisition from the Vendor of 50% of its ownership and interest in certain land located in Macau which is initially intended for redevelopment purposes, at an initial consideration of HK$495 million. Upon signing of the letter of intent, an amount of HK$10 million was paid by the Group as refundable earnest money.

In addition, further amounts of refundable earnest money of HK$230 million and HK$150 million, were paid separately by the Group with a view of negotiating possible acquisitions of ownership and interest in certain land located in Macau and properties located in the PRC.

On completion of the above possible acquisitions, the Company intends to hold the properties as investment properties.

No formal agreement in respect of the possible acquisitions has been entered into up to the date of the interim report. In the opinion of the directors of the Company, the possible acquisitions may or may not materialise, therefore, the refundable earnest money is classified as current assets accordingly.

12. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the balance sheet date:

	30.9.2005	31.3.2005 (restated)
	HK$'000	*HK$'000*
0 – 60 days	**39,625**	20,206
61 – 90 days	**4,100**	20,037
Over 90 days	**8,857**	4,470
	52,582	44,713
Other creditors and accrued expenses	**24,563**	18,059
	77,145	62,772

13. CONVERTIBLE NOTE PAYABLES

On 23rd February, 2005, the Company issued HK$100 million 2% unsecured convertible notes due 2008 at conversion price of HK$0.42 (subject to adjustment). The convertible notes carry interest at 2% per annum, will mature on 23rd February, 2008 (or the next following business day if it is not a business day) and are transferable but may not be transferred to a connected person of the Company without prior written consent of the Company. The holders of the convertible notes have the rights to convert the convertible notes into shares of HK$0.01 each of the Company at any time during the period from 23rd February, 2005 to 23rd February, 2008. During the period from 1st October, 2004 to 31st March, 2005 and during the six months ended 30th September, 2005, HK$10 million and HK$20 million 2% unsecured convertible notes due 2008 were converted into 23,809,520 and 47,619,046 ordinary shares, respectively, of HK$0.01 each in the capital of the Company at conversion price of HK$0.42.

On 8th April, 2005, the Company entered into seven subscription agreements with seven subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with two subscribers and a placing agent, respectively. Each of the subscription agreements and the placing agreement were not inter-conditional on each other.

Of the nine subscribers, seven of them were subscribers whose funds were managed by global asset management firms (the "**Fund Subscribers**"), with the remaining two subscribers being Loyal Concept Limited ("**Loyal Concept**") and Kopola Investment Company Limited ("**Kopola**"). Pursuant to the subscription agreements, the Fund Subscribers in aggregate, Loyal Concept and Kopola had conditionally agreed to subscribe by cash for HK$956 million unsecured zero coupon convertible notes due 2010 proposed to be issued by the Company pursuant to the subscription agreements (the "**Subscription Convertible Notes**") with principal amounts of HK$356 million, HK$450 million and HK$150 million, respectively (the "**Subscription**"). Loyal Concept is an indirect wholly-owned subsidiary of Hanny Holdings Limited ("**Hanny**"), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange. Loyal Concept and Hanny were not connected persons of the Company. Kopola is 50% held by Mr. Ho Hau Chong, Norman ("**Mr. Ho**"), the deputy chairman and non-executive director of the Company, and therefore an associate of Mr. Ho. As Mr. Ho was a connected person of the Company under Rule 14A.11 of the Listing Rules on the Stock Exchange, Kopola was regarded as a connected person of the Company.

13. CONVERTIBLE NOTE PAYABLES *(Cont'd)*

Pursuant to the placing agreement, the placing agent would procure, on a best effort basis, no less than six placees to subscribe by cash for HK$44 million unsecured zero coupon convertible notes due 2010 proposed to be issued by the Company (the "**Placing Convertible Notes**") pursuant to the placing agreement with a principal amount of HK$44 million (the "**Placing**"). The terms of the Subscription Convertible Notes and Placing Convertible Notes are identical.

Upon full conversion of the Subscription Convertible Notes at initial conversion price of HK$0.44 per ordinary share of HK$0.01 each in the share capital of the Company (subject to adjustment), a total of 2,172,727,272 new ordinary shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Subscription Convertible Notes will be issued.

Upon full conversion of the Placing Convertible Notes at the initial conversion price of HK$0.44 per share (subject to adjustment), a total of 100,000,000 new ordinary shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Placing Convertible Notes, will be issued.

The Subscription and the Placing completed on 11th August, 2005. The total gross proceeds from the Subscription and the Placing amounted to HK$956 million and HK$44 million, respectively. Therefore, the total gross proceeds from the Subscription and the Placing amounted to HK$1,000 million. After deducting related expenses of approximately HK$11 million, approximately HK$989 million will be used to finance the expansion of the investment property portfolio of the Company.

As at 30th September 2005, no Subscription Convertible Notes and Placing Convertible Notes had been converted.

14. DEFERRED TAXATION

The following are the major deferred tax liability (asset) provided for and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	**Deferred development costs**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April, 2004	–	–	–	–
Arising on acquisition of subsidiaries	3,263	–	(3,263)	–
(Credit) charge to income for the year	(730)	353	377	–
At 31st March, 2005	2,533	353	(2,886)	–
(Credit) charge to income for the period	(1,347)	180	1,167	–
At 30th September, 2005	1,186	533	(1,719)	–

14. DEFERRED TAXATION *(Cont'd)*

At 30th September, 2005, the Group has unused tax losses of HK$680,532,000 (31st March, 2005: HK$679,816,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$9,823,000 (31st March, 2005: HK$16,492,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK$670,709,000 (31st March, 2005: HK$663,324,000) and the deductible temporary differences due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

15. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1st April, 2005 and 30th September, 2005	40,000,000,000	400,000
Issued and fully paid:		
At 1st April, 2005	360,995,507	3,610
Conversion of convertible notes	47,619,046	476
At 30th September, 2005	**408,614,553**	**4,086**

16. OPERATING LEASE COMMITMENTS

The Group as lessee

	Six months ended	
	30.9.2005	30.9.2004
	HK$'000	*HK$'000*
Property rentals paid by the Group during the period in respect of:		
Minimum lease payments	**11,244**	7,812
Contingent rents	**3,571**	1,421
	14,815	9,233

16. OPERATING LEASE COMMITMENTS *(Cont'd)*

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30.9.2005	31.3.2005
	HK$'000	*HK$'000*
Within one year	**28,491**	19,280
In the second to fifth year inclusive	**28,080**	18,710
	56,571	37,990

Operating lease payments represent rentals payable by the Group for certain of its office premises, factory premises and outlets. Leases are negotiated for an average term of three years and rentals are either fixed or, in addition to the fixed rentals, contingent rental based on a fixed percentage of the monthly gross turnover of the outlets.

17. ACQUISITION OF A SUBSIDIARY

On 20th September, 2005, the Group acquired the entire issued share capital of China–HK International Finance Limited for a cash consideration of approximately HK$35,000. This transaction has been accounted for using the purchase method of accounting. The net asset acquired in the transaction mainly represented rental deposit of approximately HK$22,000. The newly acquired subsidiary did not make any significant contribution to turnover or did not have significant effect on loss before taxation of the Group during the period.

18. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors during the period was as follows:

	Six months ended	
	30.9.2005	30.9.2004
	HK$'000	*HK$'000*
Short-term benefits	**1,311**	282

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30th September, 2005 was approximately HK$426.4 million, representing an increase of 143% as compared with the comparative period of HK$175.4 million. This substantial increase is mainly due to the expansion in the activity of securities investment, being part of the Group's strategy in short term treasury management, which contributed HK$282.4 million to the Group's turnover during the period under review.

During the period, an impairment loss for goodwill of HK$11.0 million has been charged to the income statement. In addition, due to the adoption of new accounting standard, there was an increase in interest expense of HK$7.4 million on the liability component of convertible notes. As a result, the Group incurred a loss for the period of HK$17.8 million as compared with that of the comparative period of HK$1.0 million. The loss per share for the current period was 4.4 cents.

Property Investment

During the period, the Group has been actively looking for investment opportunities in properties. As stated in the announcement made by the Company on 26th October, 2005, the Group has proceeded to a more advanced stage in relation to negotiation for a possible acquisition of property interest in Macau. In addition, the Group has been in discussions in respect of possible acquisitions of property interests and sporting facilities in the People's Republic of China (the "**PRC**") and Hong Kong. Further announcements will be made by the Company as and when appropriate.

There are 24 residential units and 1 commercial unit at Talon Tower on Connaught Road West remain unsold.

Securities Investment

During the period, the Group has expanded its activity in securities investment with an aim to maximise the short term yield from the surplus cash balances. There was a realised gain of HK$4.1 million recognised for the period. Due to the short term market fluctuation, there was an unrealised loss of HK$5.3 million which was calculated with reference to the market price at the period end and a net loss of HK$1.2 million was reported for this segment. At the period end, the Group held investments in securities in aggregate of HK$79.9 million, which mainly represents shares or equity-linked notes in renowned companies listed in Hong Kong, the United States and Japan.

Medicine Retailing and Manufacturing

Since Tung Fong Hung Investment Limited and Jean-Marie Pharmacal Company Limited (collectively the "**Medicine Business**") were acquired by the Group around end of April 2004, their results for five months ended 30th September, 2004 had been accounted for by the Group in the comparative period. After taking into account this factor, the performance of the Medicine Business for the current period shows a moderate growth as compared with the comparative period. The segment turnover and profit achieved for the period were HK$138.4 million (2004: HK$107.1 million) and HK$5.9 million (2004: HK$0.6 million) respectively.

Financial Review

During the period, an aggregate amount of HK$20 million of the 3-year convertible notes was converted into approximately 47.6 million shares in the Company and the outstanding amount of the 3-year convertible notes at the period end was HK$70 million. To strengthen its resources for expanding the activity in property investment, the Group has further issued 5-year convertible notes in August 2005 to raise HK$1,000 million, which can be converted into shares of the Company at an initial conversion price of HK$0.44 per share and repayable at the fifth anniversary from the issue date (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled, and be redeemed at 110 percent of their principal amount. In accordance with the new accounting standard adopted by the Group during the period, an amount of HK$160.9 million representing the estimated equity component of the 5-year convertible notes was recorded to increase the capital reserve of the Group. As a result, after offset by the loss of HK$17.8 million incurred for the period, the net asset value of the Group was increased by 66% from HK$248.8 million at 31st March, 2005 to HK$411.8 million at the period end.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. In addition to the above convertible note payables in aggregate of HK$1,070 million outstanding at the period end, a variety of credit facilities is maintained so as to meet its working capital requirements of the Group. At the end of the period, total bank borrowings amounted to HK$50.9 million, of which HK$49.0 million is repayable within one year and the remaining HK$1.9 million is repayable after one year.

The net gearing ratio of the Group, calculated with reference to the total of bank loans of HK$50.9 million and the fair value of the liability component of convertible note payables of HK$901.7 million, setoff with the bank and cash balances of HK$672.5 million, and the Group's shareholders' funds of HK$410.9 million, was 0.7 at 30th September, 2005.

All the bank borrowings were interest-bearing with reference to Hong Kong inter-bank offer rate, London inter-bank offer rate or prime rate. The management believes that interest remains stable in the capital market and therefore no hedge is to be made against interest rate fluctuation. Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, and hence the Board considers that the Group was not subject to any material exchange rate exposure.

Number of Employees, Remuneration Policies and Share Option Scheme

As at 30th September, 2005, the number of employees was 527 (31st March, 2004: 515). Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the period, the Group had also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

Outlook

Continued prosperity in the Hong Kong property is expected for the coming year though there may be some short term adjustments due to the rising interest rate and the unpredictable outbreak of avian flu. The strong economy of the surrounding areas, in particular Macau becomes a hot spot for vacation, will definitely accelerate their demand for high quality residential and commercial buildings. The Group is actively and cautiously exploring suitable investment opportunities, with its primarily focus on the property markets in Hong Kong, the PRC and Macau, for its future growth.

Pledge of Assets

As at 30th September, 2005, the Group's property held for sale in an aggregate value of approximately HK$58.5 million, bank balance of HK$3.0 million, and certain property, plant and equipment of a subsidiary of the Company of approximately HK$11.6 million had been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

Contingent Liabilities

As at the period end, the Group had contingent liabilities in respect of a tax indemnity given upon disposal of a subsidiary at HK$60 million.

Securities in Issue

During the period, the Company had issued 47,619,046 ordinary shares upon conversion of convertible notes at the conversion price of HK$0.42 per share. In addition, share options of 27,300 shares were cancelled and there were no share options granted and outstanding at the period end.

As at 30th September, 2005, there were 408,614,553 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the period.

INFORMATION REQUIRED BY THE LISTING RULES

Interim Dividend

The board of directors (the "**Board**") does not recommend the payment of interim dividend in respect of the six months ended 30th September, 2005 (six months ended 30th September, 2004: Nil).

Directors' and Executives' Interests in Shares and Underlying Shares

As at 30th September, 2005, the interests in the long and short positions of the directors, chief executives and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("**SFO**")) which (a) were 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 (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") adopted by the Company to be notified to the Company and the Stock Exchange, were as follows:

Long Position

Ordinary shares of HK$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Tse Cho Tseung	Interest of controlled corporation	28,558,196 *(Note)*	6.99

Note: These shares were beneficially owned by Lunghin Enterprise Inc. ("**Lunghin**"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Tse Cho Tseung, an executive director of the Company.

Save as disclosed above, as at 30th September, 2005, none of the directors, chief executives nor their associates were interested, or were deemed to be interested in the long and short positions in the shares and underlying shares of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or (b) were required, pursuant to the Model Code adopted by the Company to be notified to the Company and the Stock Exchange.

Share Options

There are two share options scheme adopted by the Company on 28th February, 1994 (the "**1994 Scheme**") and on 26th August, 2002 (the "**2002 Scheme**"). Pursuant to a resolution passed on 26th August, 2002, the 1994 Scheme was terminated. There was no option granted under the 2002 Scheme during the six months ended 30th September, 2005 (the "**Period**").

The following table discloses the movements in the share options scheme of the Company during the Period:

			Number of share options of the Company		
1994 Scheme	**Date of grant**	**Exercise price**	**Outstanding as at 1.4.2005**	**Cancelled or lapsed during the Period**	**Outstanding as at 30.9.2005**
		HK$			
Other employee	19.6.1997	21.84	4,800	4,800	–
Other employee	2.2.1998	2.00	2,000	2,000	–
Other employee	17.11.1999	2.34	10,500	10,500	–
Other employees	14.3.2000	6.60	10,000	10,000	–
Total employees			27,300	27,300	–

Substantial Shareholders

As at 30th September, 2005, so far as was known to the directors or chief executives of the Company, the interests in the long and short positions of substantial shareholders or other persons or corporations in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

(a) *Long Position*

Name of shareholder	**Capacity**	**Number of issued shares held**	**Percentage of issued share capital**
Lunghin	Beneficial owner	28,558,196 *(Note)*	6.99

Note: Mr. Tse Cho Tseung, an executive director of the Company, is interested in the 28,558,196 shares in the Company held by Lunghin by virtue of his 100% beneficial interest in the issued share capital of Lunghin.

(b) *Convertible Notes*

Name of holder	Long position/ Short position	Capacity	Number of underlying shares for 2008 Convertible Notes *(Note 1)*	Number of underlying shares for 2010 Convertible Notes *(Note 2)*	Aggregate interest	Percentage of issued share capital
Playway Limited	Long position	Beneficial owner	44,744,046 *(Note 3)*	–	44,744,046	10.95
Suen Hung Fai	Long position	Interest of controlled corporation	44,744,046 *(Note 3)*	–	44,744,046	10.95
Yu Chi Wai	Long position	Interest of controlled corporation	44,744,046 *(Note 3)*	–	44,744,046	10.95
PSC Corporation Ltd	Short position	Beneficial owner	47,619,047	–	47,619,047	11.65
Link Merit Limited ("**Link Merit**")	Long position	Beneficial owner	47,619,047 *(Note 4)*	–	47,619,047	11.65
Wang Yung-tyng	Long position	Interest of controlled corporation	47,619,047 *(Note 4)*	–	47,619,047	11.65
Ng Po Chun, Kevin	Long position	Beneficial owner	23,809,523	–	23,809,523	5.83
Chu Yuet Wah	Long position	Beneficial owner	8,000,000	–	8,000,000	1.96
	Long position	Interest of controlled corporation	–	1,022,727,272 *(Note 6)*	1,022,727,272	250.29
					1,030,727,272	252.25

Name of holder	Long position/ Short position	Capacity	Number of underlying shares for 2008 Convertible Notes *(Note 1)*	Number of underlying shares for 2010 Convertible Notes *(Note 2)*	Aggregate interest	Percentage of issued share capital
Lee Wai Man	Long position	Beneficial owner	8,000,000	–	8,000,000	1.96
	Long position	Interest of spouse	–	1,022,727,272 *(Note 7)*	1,022,727,272	250.29
					1,030,727,272	252.25
Ma Siu Fong	Long position	Interest of spouse	8,000,000 *(Note 5)*	–	8,000,000	1.96
	Long position	Interest of controlled corporation	–	1,022,727,272 *(Note 6)*	1,022,727,272	250.29
					1,030,727,272	252.25
Kingston Finance Limited ("**Kingston**")	Long position	Security interest	–	1,022,727,272 *(Note 6)*	1,022,727,272	250.29
Loyal Concept Ltd. ("**Loyal Concept**")	Long position	Beneficial owner	–	1,022,727,272 *(Note 8)*	1,022,727,272	250.29
Hanny Magnetics (B.V.I.) Limited ("**Hanny Magnetics**")	Long position	Interest of controlled corporation	–	1,022,727,272 *(Note 8)*	1,022,727,272	250.29
Hanny Holdings Limited ("**Hanny Holdings**")	Long position	Interest of controlled corporation	–	1,022,727,272 *(Note 8)*	1,022,727,272	250.29
Kopola Investment Company Limited ("**Kopola**")	Long position	Beneficial owner	–	340,909,090 *(Note 9)*	340,909,090	83.43
Ho Hau Chong, Norman	Long position	Interest of controlled corporation	–	340,909,090 *(Note 9)*	340,909,090	83.43
Ho Hau Hay, Hamilton	Long position	Interest of controlled corporation	–	340,909,090 *(Note 9)*	340,909,090	83.43

Name of holder	Long position/ Short position	Capacity	Number of underlying shares for 2008 Convertible Notes *(Note 1)*	Number of underlying shares for 2010 Convertible Notes *(Note 2)*	Aggregate interest	Percentage of issued share capital
Centar Investments (Asia) Ltd. ("**Centar**")	Long position	Beneficial owner	–	44,318,181 *(Note 10)*	44,318,181	10.85
Shepherd Investments International Ltd. ("**Shepherd**")	Long position	Beneficial owner	–	199,431,818 *(Note 10)*	199,431,818	48.81
Stark Asia Master Fund Ltd. ("**Stark Asia**")	Long position	Beneficial owner	–	119,659,090 *(Note 10)*	119,659,090	29.28
Stark International	Long position	Beneficial owner	–	79,772,727 *(Note 10)*	79,772,727	19.52
Stark Investments (Hong Kong) Limited ("**Stark HK**")	Long position	Interest of controlled corporations	–	443,181,816 *(Note 10)*	443,181,816	108.46
OZ Asia Master Fund ("**OZ Asia**")	Long position	Beneficial owner	–	51,818,182 *(Note 11)*	51,818,182	12.68
OZ Master Fund, Ltd. ("**OZ Master**")	Long position	Beneficial owner	–	214,090,909 *(Note 11)*	214,090,909	52.39
OZ Management, L.L.C. ("**OZ Management**")	Long position	Interest of controlled corporations	–	265,909,091 *(Note 11)*	265,909,091	65.08
Highbridge International LLC ("**Highbridge International**")	Long position	Beneficial owner	–	90,909,090 *(Note 12)*	90,909,090	22.25
Highbridge Capital Management LLC ("**Highbridge Capital**")	Long position	Investment manager	–	90,909,090 *(Note 12)*	90,909,090	22.25
Highbridge GP, Ltd. ("**Highbridge GP**")	Long position	Interest of controlled corporation	–	90,909,090 *(Notes 12 and 13)*	90,909,090	22.25

Name of holder	Long position/ Short position	Capacity	Number of underlying shares for 2008 Convertible Notes *(Note 1)*	Number of underlying shares for 2010 Convertible Notes *(Note 2)*	Aggregate interest	Percentage of issued share capital
Clive Harris	Long position	Interest of controlled corporation	–	90,909,090 *(Note 13)*	90,909,090	22.25
Michael Austin	Long position	Interest of controlled corporation	–	90,909,090 *(Note 13)*	90,909,090	22.25

Notes:

1. The underlying shares represent the new shares to be issued upon full conversion of the 2% convertible notes due 2008 ("**2008 Convertible Notes**") held by respective holders of the convertible notes at a conversion price of HK$0.42 per share issued by the Company on 23rd February, 2005.

2. The underlying shares represent the new shares to be issued upon full conversion of the zero coupon convertible notes due 2010 ("**2010 Convertible Notes**") held by respective holders of the convertible notes at a conversion price of HK$0.44 per share issued by the Company on 11th August, 2005.

3. Each of Mr. Suen Hung Fai and Mr. Yu Chi Wai owns 50% interest in Playway Limited.

4. Mr. Wang Yung-tyng beneficially owns the entire interest in Link Merit which beneficially owns HK$20,000,000 2008 Convertible Notes.

5. Ms. Ma Siu Fong is the spouse of Mr. Lee Wai Man. By virtue of the SFO, Ms. Ma Siu Fong was deemed to be interested in all the underlying shares of the Company held by Mr. Lee Wai Man.

6. Mrs. Chu Yuet Wah and Ms. Ma Siu Fong own 51% and 49% interest in Kingston respectively which beneficially owns a security interest of HK$450,000,000 2010 Convertible Notes held by Loyal Concept.

7. Mr. Lee Wai Man is the spouse of Ms. Ma Siu Fong. By virtue of the SFO, Mr. Lee Wai Man was deemed to be interested in all the underlying shares of the Company held by Kingston.

8. Hanny Holdings and Hanny Magnetics were taken to have an interest in 1,022,727,272 shares of HK$450,000,000 2010 Convertible Notes since Loyal Concept is a wholly-owned subsidiary of Hanny Magnetics which, in turn, is a wholly-owned subsidiary of Hanny Holdings, shares of which are listed on the Stock Exchange.

9. Each of Mr. Ho Hau Chong, Norman, a non-executive director of the Company, and his brother, Mr. Ho Hau Hay, Hamilton owns 50% interest in Kopola which beneficially owns HK$150,000,000 2010 Convertible Notes.

10. Stark HK was taken to have an interest in 443,181,816 shares of HK$195,000,000 2010 Convertible Notes owned by Centar, Shepherd, Stark Asia and Stark International.

11. OZ Management was taken to have an interest in 265,909,091 shares of HK$117,000,000 2010 Convertible Notes owned by OZ Asia and OZ Master.

12. Highbridge GP was taken to have an interest in 90,909,090 shares of HK$40,000,000 2010 Convertible Notes since Highbridge International is a wholly-owned subsidiary of Highbridge Asia Opportunities Master L.P. ("**Highbridge Asia**") which, in turn, is a wholly-owned subsidiary of Highbridge GP. Highbridge Capital is an investment manager of Highbridge Asia.

13. Each of Mr. Clive Harris and Mr. Michael Austin owns 50% interest in Highbridge GP.

Save as disclosed above, as at 30th September, 2005, the directors or chief executives of the Company were not notified of any persons or corporations who had any interests in the long and short positions in the shares and underlying shares of the Company, which would be required to be disclosed to the Company and the Stock Exchange as recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September, 2005.

Audit Committee

The Audit Committee of the Company has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, financial reporting process and internal control matters including a review of the unaudited interim financial report for the six months ended 30th September, 2005.

Code on Corporate Governance Practices

The Company has, throughout the period ended 30th September, 2005, complied with the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange except for the following deviation from code provision A.4.2 of the Code:

Under code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The rotation of directors at the annual general meeting of the Company held on 9th September, 2005 was in accordance with the Company's previous bye-laws which stipulate, inter alia, that one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. This deviated from the requirements of code provision A.4.2.

To fully comply with code provision A.4.2, relevant amendments to the Company's bye-laws were proposed and approved by the shareholders at the same annual general meeting of the Company, pursuant to which every director shall be subject to retirement by rotation at least once every three years at the annual general meeting in future.

Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company.

All directors of the Company have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code during the six months ended 30th September, 2005.

On behalf of the Board
Cheung Hon Kit
Chairman

Hong Kong, 19th December, 2005