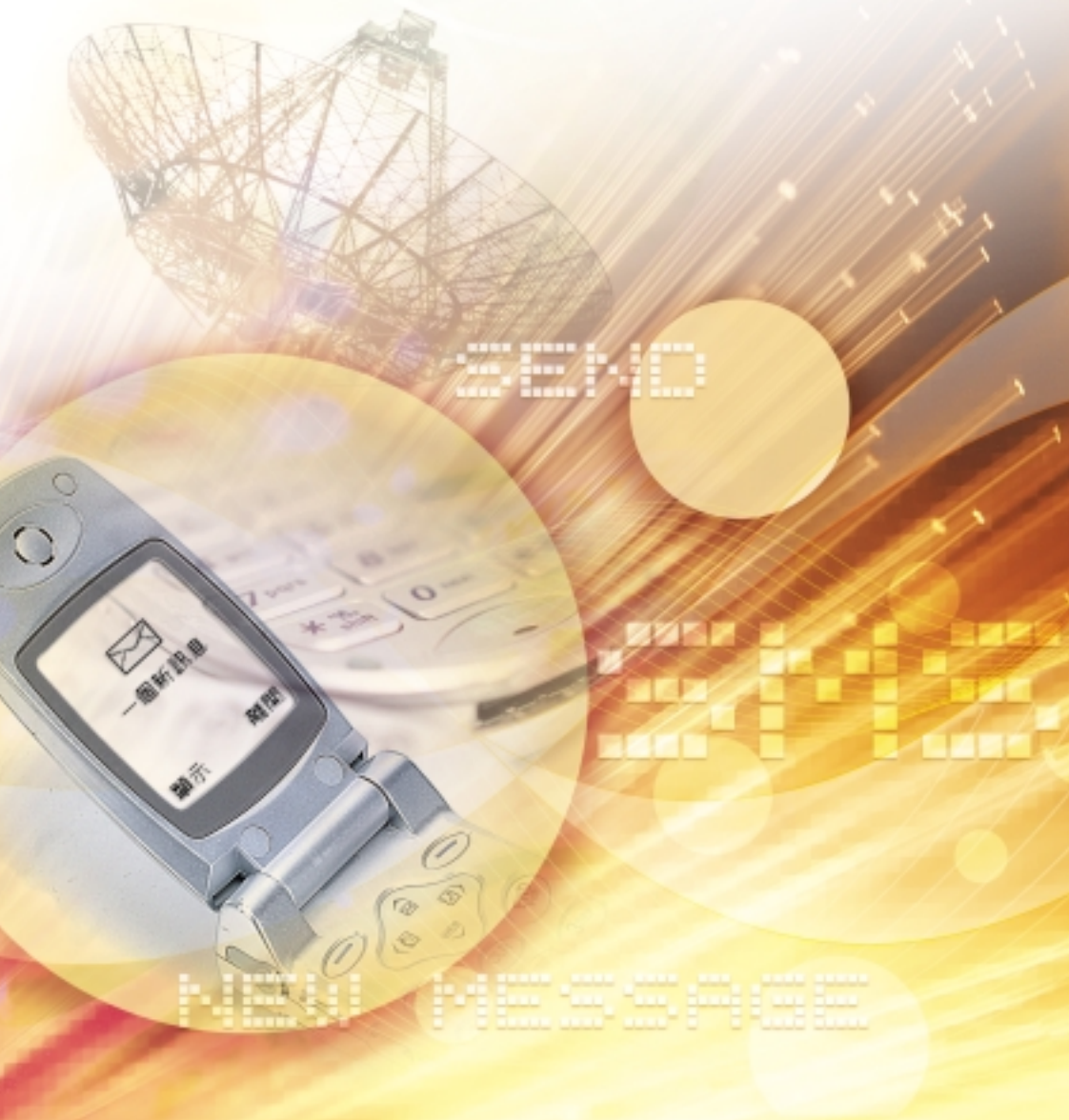


# HyComm

HyComm Wireless Limited  
華脈無線通信有限公司

(Incorporated in Bermuda with limited liability)  
(於百慕達註冊成立之有限公司)

Interim Report 2005



SEND

NEW MESSAGE

The Board of Directors (“Board”) of HyComm Wireless Limited (the “Company”) announces that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2005 together with the comparative figures for the previous corresponding period are as follows:–

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 September</b>	
		<b>2005</b>	2004
		<b>(Unaudited)</b>	(Unaudited)
			(as restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	<b>5,626</b>	4,512
Other revenue		<b>383</b>	478
Operating costs		<b>(6,590)</b>	(7,619)
Staff costs		<b>(3,243)</b>	(3,760)
Amortisation of goodwill		–	(1,106)
		<hr/>	<hr/>
Loss from operations	3	<b>(3,824)</b>	(7,495)
Finance costs	4	<b>(2,174)</b>	(1,895)
Share of results of associates		<b>(4)</b>	7
		<hr/>	<hr/>
Loss before taxation		<b>(6,002)</b>	(9,383)
Taxation	5	<b>(134)</b>	–
		<hr/>	<hr/>
Loss for the period		<b>(6,136)</b>	(9,383)
		<hr/>	<hr/>
Attributable to:			
Equity holders of the parent company		<b>(5,948)</b>	(8,778)
Minority interests		<b>(188)</b>	(605)
		<hr/>	<hr/>
		<b>(6,136)</b>	(9,383)
		<hr/>	<hr/>
Loss per share – basis	6	<b>(0.20) cents</b>	(0.29) cents
		<hr/>	<hr/>

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2005 (Unaudited)	As at 31 March 2005 (Audited) (as restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Investment properties	7	173,500	173,500
Property, plant and equipment		9,096	11,119
Properties under development		8,000	8,000
Interest in associates		1,470	1,175
Goodwill		2,212	2,212
Available-for-sale securities		2,592	2,765
Other investment		841	841
		<u>197,711</u>	<u>199,612</u>
<b>CURRENT ASSETS</b>			
Inventories		11	11
Receivables, deposits and prepayments	8	1,490	736
Pre-paid taxation		42	–
Bank balances and cash		738	1,567
		<u>2,281</u>	<u>2,314</u>
<b>CURRENT LIABILITIES</b>			
Payables and accrued charges	9	20,916	19,499
Deposits received		1,019	682
Amount due to a director		4,554	–
Amounts due to former shareholders		4,295	4,295
Taxation		1,648	1,648
Bank borrowings – due within one year	10	21,892	20,717
Other borrowings – due within one year	11	1,245	943
		<u>55,569</u>	<u>47,784</u>
<b>NET CURRENT LIABILITIES</b>		<u>(53,288)</u>	<u>(45,470)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>144,423</u>	<u>154,142</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	10	86,582	89,310
Other borrowings – due after one year	11	875	1,695
Deferred taxation		4,380	4,242
		<u>91,837</u>	<u>95,247</u>
		<u>52,586</u>	<u>58,895</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	298,064	298,064
Share premium and reserves		(245,553)	(239,432)
		<u>52,511</u>	<u>58,632</u>
<b>MINORITY INTERESTS</b>		<u>75</u>	<u>263</u>
		<u>52,586</u>	<u>58,895</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Surplus account <i>HK\$'000</i>	Fair value reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004							
As previously reported	298,064	491,426	-	255,025	-	(995,177)	49,338
Prior period adjustments:							
Leasehold land and buildings held for own use	-	-	-	-	-	1,169	1,169
As restated	298,064	491,426	-	255,025	-	(994,008)	50,507
Loss for the period	-	-	-	-	-	(8,778)	(8,778)
At 30 September 2004	<u>298,064</u>	<u>491,426</u>	<u>-</u>	<u>255,025</u>	<u>-</u>	<u>(1,002,786)</u>	<u>41,729</u>
At 1 April 2005							
As previously reported	298,064	491,426	16,674	255,025	-	(1,003,210)	57,979
Prior period adjustments:							
Leasehold land and buildings held for own use	-	-	-	-	-	653	653
Investment properties	-	-	(16,674)	-	-	16,674	-
As restated	298,064	491,426	-	255,025	-	(985,883)	58,632
Changes in fair value of available-for-sale securities	-	-	-	-	(173)	-	(173)
Loss for the period	-	-	-	-	-	(5,948)	(5,948)
At 30 September 2005	<u>298,064</u>	<u>491,426</u>	<u>-</u>	<u>255,025</u>	<u>(173)</u>	<u>(991,831)</u>	<u>52,511</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 September</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	<b>(3,312)</b>	4,168
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	–	(3,000)
NET CASH OUTFLOW FROM FINANCING	<b>(823)</b>	(4,413)
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(4,135)</b>	(3,245)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>(7,046)</b>	(3,189)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>(11,181)</b>	(6,434)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>738</b>	4,209
Bank overdrafts	<b>(11,919)</b>	(10,643)
	<b>(11,181)</b>	(6,434)

Notes:–

## (1) Significant accounting policies

These unaudited condensed consolidated interim financial statements have been prepared in compliance with Hong Kong Accounting Standard (“HKAS”) No. 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

The same principal accounting policies and basis of presentation are followed in these interim financial statements as compared with the published annual financial statements for the year ended 31 March 2005 except that, during the year ending 31 March 2006, the Group has changed certain of its accounting policies, mainly following its adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRS”), interpretations and HKASs (“new/revised HKFRSs”) which are relevant to its operations and are effective for accounting periods commencing on or after 1 January 2005. Certain comparative figures have been restated as required, in accordance with the relevant requirements to conform with current period’s presentation. The material changes to the Group’s principal accounting policies and the financial impact of adopting these new policies are set out below.

The adoption of 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, interests in land and buildings other than investment properties were stated at fair value, and separate values were not attributed to land and buildings.

The adoption of HKAS 40 has resulted in a change in the accounting policy for investment properties. The changes in fair values of the investment properties are recorded in the income statement as part of other operating income or expenses. In prior 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.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to other non-current investments. All non-trading investments are classified as available-for-sale securities and carried at fair value. Changes in fair value are recognised in equity, unless there is objective evidence that an individual investment has been impaired. If there is impairment, any amount held in the fair value reserve in respect of the relevant investment is transferred to the income statement. In prior years, the investments in securities are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

The adoption of HKFRS 3, HKASs 36 and 38 has resulted in a change in the accounting policy for goodwill. Up to 31 March 2005, goodwill was:

- amortised on a straight line basis over its estimated useful life; and
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1 April 2005;
- accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and
- from 1 April 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment was resulted from this reassessment.

All relevant changes in the accounting policies have been made in accordance with the respective transitional provisions. All new/revised HKFRSs adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit recognising, derecognising or measuring financial assets and liabilities in accordance with this standard on a retrospective basis; and
- HKFRS 3 – prospectively after adoption.

The financial effect on the Group's financial statements upon the adoption of these new policies are set out below:–

*Opening balance of balance sheet items as at 31 March*

	Other Balance Sheet Items		Total Equity	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
<b>Increase/(decrease)</b>				
HKAS 17				
Leasehold land and buildings	653	1,169	–	–
Deficit b/f	–	–	653	1,169
HKAS 40				
Investment property revaluation reserve	–	–	(16,674)	–
Deficit b/f	–	–	16,674	–
HKAS 38				
Goodwill	(4,424)	(2,212)	–	–
Provision for amortisation of goodwill	4,424	2,212	–	–

## Loss for the period for the six months ended 30 September

Increase/(decrease)	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
HKAS 17		
Depreciation for leasehold land and buildings held for own use	33	33
HKAS 38		
Amortisation of goodwill	(1,106)	–
HKSA 39		
Change in fair value of available-for-sale securities	(173)	–
	<u>(1,246)</u>	<u>33</u>
Loss per share – basis	<u>(0.04) cents</u>	<u>0.00 cents</u>

## (2) Segmental information

The Group's turnover and contribution therefrom for the period is analysed as follows:

	Turnover		Contribution to loss from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross rental income from investment properties	3,436	2,978	1,319	(39)
Income from short message services	2,149	1,510	(466)	(816)
Sales of goods and services	41	24	(1,051)	(1,520)
	<u>5,626</u>	<u>4,512</u>	<u>(198)</u>	<u>(2,375)</u>
Unallocated other revenue			68	450
Unallocated corporate expenses			(3,694)	(4,464)
Amortisation of goodwill			–	(1,106)
Loss from operations			<u>(3,824)</u>	<u>(7,495)</u>

All of the activities of the Group are based in the People's Republic of China (the "PRC") and all of the Group's turnover and the loss from operations are derived from the PRC, including Hong Kong.



### (3) Loss from operations

The Group's loss from operations is arrived at after charging:

	Six months ended 30 September	
	2005 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) (as restated) <i>HK\$'000</i>
Directors' remuneration	2,239	2,544
Depreciation and amortisation	2,023	1,858
Operating lease payment in respect of rented premises	480	450
	2,742	4,852

### (4) Finance costs

	Six months ended 30 September	
	2005 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>
Finance costs comprise of:		
Interest expense on:		
Bank borrowings wholly repayable within five years	1,794	1,629
Bank borrowings wholly repayable more than five years	333	266
Other borrowings	47	-
	2,174	1,895

### (5) Taxation

Hong Kong Profits Tax is provided at the rate of 17.5% on the estimated assessable profits for the period. Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant regions of the PRC.

### (6) Loss per share

The calculation of the basic loss per share is based on the loss for the period attributable to the equity holders of the Company of HK\$5,948,000 (2004: HK\$8,778,000) and on the weighted average number of 2,980,639,015 shares (2004: 2,980,639,015 shares) in issue during the period.

Diluted loss per share for the six months ended 30 September 2005 and 2004 has not been presented because no potential dilutive ordinary share existed during the period.

**(7) Investment properties**

During the period, the Group did not record any addition to investment properties. As at 30 September 2005, the directors have considered that the carrying amount of the Group's investment properties do not differ significantly from those which would be determined using fair values at last balance sheet date. Consequently, no revaluation surplus or deficit has been recognized in the current period.

**(8) Receivables, deposits and prepayments**

The credit terms are negotiated with and entered into under normal commercial terms. Rentals receivable from tenants and service income receivable from customers are payable on presentation of invoices. Included in receivables, deposits and prepayment are trade debtors of HK\$102,000 (31 March 2005: HK\$82,000). The aging analysis of trade debtors is as follows:

	<b>As at 30 September 2005 (Unaudited) HK\$'000</b>	<b>As at 31 March 2005 (Audited) HK\$'000</b>
Current	65	71
Over 1 month but less than 3 months	26	11
Over 3 months	11	-
	<u>102</u>	<u>82</u>

**(9) Payables and accrued charges**

Included in payables and accrued charges are trade creditors of HK\$9,593,000 (31 March 2005: HK\$9,997,000). The aging analysis of trade creditors is as follows:

	<b>As at 30 September 2005 (Unaudited) HK\$'000</b>	<b>As at 31 March 2005 (Audited) HK\$'000</b>
Current	-	-
Over 1 month but less than 3 months	-	-
Over 3 months	9,593	9,997
	<u>9,593</u>	<u>9,997</u>

## (10) Bank borrowings

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Bank loans, secured	96,555	101,414
Bank overdrafts, secured	11,919	8,613
	<u>108,474</u>	<u>110,027</u>
The maturity of borrowings is as follows:		
Within one year or on demand	21,892	20,717
More than one year, but not exceeding two years	11,053	11,660
More than two years, but not exceeding five years	59,388	41,460
More than five years	16,141	36,190
	<u>108,474</u>	110,027
Amount due within one year or on demand included in current liabilities	<u>(21,892)</u>	<u>(20,717)</u>
Amount due after one year	<u>86,582</u>	<u>89,310</u>

## (11) Other borrowings

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
The maturity of borrowings is as follows:		
Within one year or on demand	1,245	943
More than one year, but not exceeding two years	651	975
More than two years, but not exceeding five years	224	720
More than five years	-	-
	<u>2,120</u>	2,638
Amount due within one year or on demand included in current liabilities	<u>(1,245)</u>	<u>(943)</u>
Amount due after one year	<u>875</u>	<u>1,695</u>

**(12) Share capital**

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
Authorised:		
Shares of HK\$0.10 each		
At 31 March 2005 (Audited) and 30 September 2005 (Unaudited)	<u>6,000,000,000</u>	<u>600,000</u>
Issued and fully paid:		
At 31 March 2005 (Audited) and 30 September 2005 (Unaudited)	<u>2,980,639,015</u>	<u>298,064</u>

**(13) Related party transactions**

The Group entered into the following transactions with related parties during the six months ended 30 September 2005:

	<b>Six months ended 30 September</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Rental paid to:		
Plotio Investment (HK) Limited	<b>(480)</b>	(450)
Service fee (paid to) received from:		
Keung Kee Cleaning Services Company Limited	–	1
Keung Kee Cleaning Services Company Limited	<b>(14)</b>	(13)
Lee Wai Engineering Company Limited	<b>(3)</b>	(61)
Monchase Underwriters Limited	<b>(43)</b>	(34)
Plotio Development Consultants Limited	<b>(45)</b>	(105)
Plotio Property and Management Company Limited	<b>40</b>	21
Plotio Property and Management Company Limited	<b>(193)</b>	(171)
Plotio Property Consultants Limited	<b>(238)</b>	(194)

*Note:* Keung Kee Cleaning Services Company Limited, Lee Wai Engineering Company Limited, Monchase Underwriters Limited, Plotio Development Consultants Limited, Plotio Investment (HK) Limited, Plotio Property and Management Company Limited and Plotio Property Consultants Limited are companies beneficially held by Mr. Lai Yiu Keung, executive director of the Company.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

During the six months ended 30 September 2005, the Group was principally engaged in the business of property investment and development, short message services and trading of communication products. The Group recorded turnover for the period of approximately HK\$5.6 million and loss for the period attributable to equity holders of approximately HK\$6.0 million.

### **Business review and prospects**

During the period under review, the increase in turnover by about HK\$1 million is mainly attributable to the increase in rental income and income from short message services during the period. The decrease in loss for the period by about HK\$3 million was mainly due to increase in income, effective cost control and no amortisation of goodwill amounting to about HK\$1 million during the period. During the period, the investment properties have continued to contribute to the Group and the Group's properties under development are still in a preliminary stage and the construction work will only commence later.

While increase of the properties value benefits the results of the Group due to Hong Kong property market was prospered, gradual shift of its business strategy from property investment and development to technology-related and communication businesses allows the Group to focus its resources on technology-related and communication businesses in an attempt to broaden its earning base and catch new opportunities in the long run. By adopting a prudent approach in its new business development and financial strategy, the Group hopes to take advantage of new business opportunities with strong market momentum and potential. It is believed that the new business strategy will bring to the shareholders greater value created from the new business in the long run.

### Liquidity and financial resources, pledge of assets and contingent liabilities

The Group has bank and cash balance of approximately HK\$738,000 as at 30 September 2005. The Group's major liabilities are bank borrowings and its bank borrowings outstanding at 30 September 2005 amounted to approximately HK\$108 million, representing an decrease of approximately HK\$2 million as compared with the amounts outstanding at 31 March 2005. During the period, there is no material change in the level of bank borrowings of the Group and its gearing level (total liabilities over equity) changed from 2.44 at 31 March 2005 to 2.81 at 30 September 2005. The borrowings outstanding at 30 September 2005 is secured by certain properties held by the Group and denominated in Hong Kong dollar only. As at 30 September 2005, the Group has no material contingent liability and capital commitment. With bank and cash and other current assets as well as the Group's available banking facilities, the Group has sufficient financial resources to satisfy its financial commitments and working capital requirements.

### Employee

As at 30 September 2005, the Group had 14 employees in Hong Kong. In addition to basic salary, employees are rewarded with performance-related bonuses, other staff welfare and also a share option scheme will be made available to certain staff of the Group at the discretion of the Board.

### DIRECTORS' INTERESTS IN SHARES

As at 30 September 2005, the interests of directors and their associates in the share capital of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:—

Name of director	Type of interest	Number of shares held	Total number of shares held	Approximate percentage of shareholding in the Company
Mr. Lai Yiu Keung	Corporate ( <i>Note 1</i> )	240,700,000		
	Personal	151,000,000	391,700,000	13.14%
Madam Chung Lai Ha	Family ( <i>Note 1 and 2</i> )	391,700,000	391,700,000	13.14%

#### Notes:

- 210,700,000 shares are registered in the name of United Man's Limited, a company incorporated in the British Virgin Islands and the remaining 30,000,000 shares are registered in the name of Justgood Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of these two companies is beneficially owned by Mr. Lai Yiu Keung.

2. Madam Chung Lai Ha is the spouse of Mr. Lai Yiu Keung and is deemed to be interested in those shares of the Company in which Mr. Lai Yiu Keung has an interest.

In addition to the above, the following directors beneficially owned the non-voting 5 per cent. deferred shares of HK\$1 each in the members of the Group as at 30 September 2005:–

<b>Name of director</b>	<b>Name of member of the Group</b>	<b>Number of non-voting 5 per cent. deferred shares</b>
Mr. Lai Yiu Keung	Billtech Limited	2,000
	Oriental Gain Properties Limited	3,710

The non-voting 5 per cent. deferred shares practically carry no rights to dividends or to receive notice of or attend or vote at any general meeting of the companies or to participate in the surplus assets of the above-mentioned companies by virtue or in respect of their holdings of such non-voting 5 per cent. deferred shares.

Save as disclosed above, as at 30 September 2005, none of the directors, chief executives or any of their associates had any interest in the shares of the Company or any of its associated corporations within the meaning of Part XV of SFO.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors, or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDER

Other than the interests of directors under the heading “Directors’ Interests in Shares” above, as at 30 September 2005, the following persons had an interest or short position in the share capital of the Company as recorded in the register maintained by the Company pursuant to section 336 of Part XV of the SFO.

Name	Number of shares held	Approximate percentage of shareholding in the Company
Lintech Telecom Limited ( <i>Note</i> )	374,519,995	12.57%
Lintech Limited ( <i>Note</i> )	374,519,995	12.57%
Guangdong Telecom Industry Group Corporation ( <i>Note</i> )	374,519,995	12.57%

*Note:* These shares are beneficially held by Guangdong Telecom Industry Group Corporation through its 95% owned subsidiary, Lintech Limited and the wholly owned subsidiary of Lintech Limited, Lintech Telecom Limited. The entire issued share capital of Lintech Telecom Limited is held by Lintech Limited and 95% of the issued share capital of Lintech Limited is held by Guangdong Telecom Industry Group Corporation.

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## CORPORATE GOVERNANCE

As at 30 September 2005, the Company has complied with the Code on Corporate Governance Practices (“Code”) as set out in Appendix 14 of the Listing Rules except the followings:

Code provision A.2.1 of the Code: The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not separate the roles of chairman and managing director and Mr. Lai Yiu Keung currently holds both positions. The Board is in the opinion that the combination of the roles of chairman and managing director can ensure the efficient formulation and implementation of the Company’s strategies to catch business opportunities. Such arrangement, which has been adopted by many local and international corporations, enables the Company to meet the rapidly changing business environment that needs efficient decision making.



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. According to the Company's Bye-Laws, at every annual general meeting, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that no director holding the office as chairman and/or managing director shall be subject to retirement by rotation or be taken into account in determining the number of directors to retire. The Board is in the opinion that the continuity of office of the chairman or managing director provides the Group a strong and consistent leadership and smoothes the operations of the Group.

Code provision B.1.1 of the Code: The Company should established a remuneration committee with specific terms of reference which deal clearly with its authority and duties and a majority of the members of the remuneration committee should be independent non-executive directors. The Board is in the opinion that establishment of a remuneration committee as required by this provision does not really benefit to the Group after due consideration of the size of the Group and the associated costs involved.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS ("Model Code")**

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. The Company has made enquiries with the directors that they have complied with the Model Code throughout the period.

### **AUDIT COMMITTEE**

The audit committee of the Company comprises of three independent non-executive directors. The primary duties of the audit committee are review and advice on the accounting principles and practice adopted by the Group, auditing, financial reporting process and internal control system of the Group, including review of the Group's unaudited interim accounts for the six months ended 30 September 2005.

By Order of the Board

**Lai Yiu Keung**

*Chairman and Managing Director*

Hong Kong, 23 December 2005

*As at the date of this report, the executive directors of the Company are Mr. Lai Yiu Keung, Ms. Chung Lai Ha, Mr. Kwok Chong, Anthony and Mr. Lai Man Kon and the independent non-executive directors of the Company are Mr. Li Mow Ming, Sonny, Mr. Chan Kwok Kay and Mr. Ng Wai Hung.*