

CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)



The Premier Designer
& Manufacturer of
Quality Leather
Accessories

The Board of Directors (the "Directors") of Chanco International Group Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2004 as follows:-

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

		Six months ended 30th September,	
		2004	2003
		Unaudited	Unaudited
	Notes	HK\$'000	HK\$'000
Turnover	2	96,231	76,768
Cost of sales		(65,341)	(50,470)
Gross profit		30,890	26,298
Other revenue		265	521
Selling and distribution costs		(2,232)	(1,689)
Administrative and other operating expenses		(7,756)	(6,597)
Profit before taxation	3	21,167	18,533
Taxation	4	(1,721)	(1,510)
Profit attributable to shareholders		19,446	17,023
Dividends	5	6,370	5,733
Basic earnings per share	6	HK6.1 cents	HK5.4 cents
Diluted earnings per share	6	HK6.1 cents	HK5.4 cents



CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH SEPTEMBER, 2004

		30th September, 2004	31st March, 2004
		Unaudited	Audited
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		7,260	6,716
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Current assets			
Inventories		32,143	17,733
Trade receivables	7	13,603	19,116
Other receivables, deposits and prepayments		1,642	905
Other investment	8	8,133	7,940
Taxation recoverable		—	295
Bank balances and cash		79,339	67,093
		134,860	113,082
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Current liabilities			
Trade payables	9	12,382	8,516
Other payables and accrued charges		8,634	5,318
Taxation payable		1,362	—
		22,378	13,834
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Net current assets		112,482	99,248
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Total assets less current liabilities		119,742	105,964
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Non-current liabilities			
Deferred taxation		294	229
		119,448	105,735
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Capital and reserves			
Share capital	10	3,185	3,185
Reserves		109,893	96,817
Proposed interim/final dividend		6,370	5,733
		119,448	105,735
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

		Unaudited Six months ended 30th September, 2004			
	Share capital HK\$'000	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000	
At 1st April, 2004	3,185	32,435	70,115	105,735	
Final dividend paid for year ended 31st March, 2004	—	—	(5,733)	(5,733)	
Profit for the period	—	—	19,446	19,446	
At 30th September, 2004	3,185	32,435	83,828	119,448	
Representing:-					
Share capital				3,185	
Reserves				109,893	
2004/05 interim dividend proposed				6,370	
At 30th September, 2004				119,448	

		Unaudited Six months ended 30th September, 2003			
	Share capital HK\$'000	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000	
At 1st April, 2003	3,077	26,258	56,960	86,295	
Final dividend paid for year ended 31st March, 2003	—	—	(12,725)	(12,725)	
Profit for the period	—	—	17,023	17,023	
Exercise of share options	108	6,177	—	6,285	
At 30th September, 2003	3,185	32,435	61,258	96,878	
Representing:-					
Share capital				3,185	
Reserves				87,960	
2003/04 interim dividend proposed				5,733	
At 30th September, 2003				96,878	

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

	Six months ended 30th September,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash from operating activities	19,299	14,446
Net cash used in investing activities	(1,320)	(137)
Net cash used in financing activities	(5,733)	(6,440)
Increase in cash and cash equivalents	12,246	7,869
Cash and cash equivalents at the beginning of the period	67,093	54,315
Cash and cash equivalents at the end of the period	79,339	62,184
Analysis of balances of cash and cash equivalents		
Bank balances and cash	79,339	62,184

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

1. Basis of preparation and principal accounting policies

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 is in compliance with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in these condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2004.

2. Segment information

Primary reporting format - business segments

	Unaudited				
	Six months ended 30th September, 2004				
	Small leather				Group
	Belts	goods	Bags	Leather	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	91,900	3,213	764	354	96,231
Results					
Segment results	26,946	1,411	212	89	28,658
Unallocated revenue					265
Unallocated costs					(7,756)
Profit before taxation					21,167
Taxation					(1,721)
Profit attributable to shareholders					19,446



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

	Unaudited				
	Six months ended 30th September, 2003				
	Belts	Small leather goods	Bags	Leather	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	75,102	1,294	—	372	76,768
Results					
Segment results	23,951	540	—	118	24,609
Unallocated revenue					521
Unallocated costs					(6,597)
Profit before taxation					18,533
Taxation					(1,510)
Profit attributable to shareholders					17,023

Secondary reporting format - geographical segments

	Turnover	
	Six months ended 30th September,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Japan	46,291	45,070
Europe	20,464	7,722
The United States of America ("US")	7,193	8,648
Hong Kong	7,477	6,643
The People's Republic of China, other than Hong Kong ("PRC")	4,647	4,009
Australia	4,943	1,147
Others	5,216	3,529
	96,231	76,768

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

3. Profit before taxation

Profit before taxation has been arrived at after charging:

	Six months ended 30th September,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Bad debts written off and provision for bad debts	34	42
Cost of inventories sold		
- material costs	50,962	40,058
- production overheads	14,379	10,412
Depreciation of property, plant and equipment	849	769
Operating lease rentals in respect of land and buildings	1,781	1,740
Provision for obsolete inventories	149	613
Staff costs (excluding directors' emoluments)	3,472	2,623
and after crediting:		
Unrealised holding gain on other investment	193	–

4. Taxation

	Six months ended 30th September,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current tax:		
- Hong Kong profits tax	1,656	1,515
Deferred tax	65	(5)
	1,721	1,510

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is entitled to exemption from PRC income tax for two years commencing from the first profit-making year, and entitled to a 50% relief from the PRC income tax for the following three years.

No provision for the PRC income tax has been made for the Group's PRC subsidiary as it was exempt from the income tax for its second profitable year of operation.

5. Dividends

	Six months ended 30th September,	
	2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
2004 interim dividend of HK\$0.02 (2003: HK\$ 0.018) per share	6,370	5,733

At a board meeting held on 9th December, 2004, the directors declared an interim dividend of HK\$0.02 per share, aggregating a total of HK\$6,370,000 for the six months ended 30th September, 2004. The amount of proposed interim dividend is based on 318,500,000 shares in issue at 9th December, 2004.

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$19,446,000 (2003: HK\$17,023,000) and the weighted average of 318,500,000 (2003: 312,610,383) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the Group's profit attributable to shareholders of HK\$19,446,000 (2003: HK\$17,023,000) and the weighted average number of 318,726,839 (2003: 313,780,284) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,500,000 (2003: 312,610,383) ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average of 226,839 (2003: 1,169,901) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

7. Trade receivables

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms might grant to those customers which have good payment history and long-term business relationship with the Group. Details of the ageing analysis are as follows:

	30th September, 2004 Unaudited HK\$'000	31st March, 2004 Audited HK\$'000
Current to 30 days	9,287	15,746
31-60 days	2,848	1,760
61-90 days	712	1,136
91-120 days	366	208
121-365 days	390	98
Over 365 days	—	168
	<hr/> 13,603	<hr/> 19,116

8. Other Investment

	30th September, 2004 Unaudited HK\$'000	31st March, 2004 Audited HK\$'000
Open-ended mutual funds with guaranteed return, stated at quoted market price	8,133	7,940
	<hr/> 8,133	<hr/> 7,940



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

9. Trade payables

Details of the ageing analysis are as follows:

	30th September, 2004 Unaudited HK\$'000	31st March, 2004 Audited HK\$'000
Current to 30 days	7,797	5,320
31-60 days	2,581	2,276
61-90 days	1,479	151
91-120 days	375	424
121-365 days	142	317
Over 365 days	8	28
	<hr/> 12,382	<hr/> 8,516

10. Share capital

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

11. Contingent liabilities

The Group had no material contingent liabilities as at 30th September, 2004.

12. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	Six months ended 30th September, 2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<hr/> 120	<hr/> 120

Mr. Chan Woon Man is a substantial shareholder of the Company and Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

Rentals are payable at HK\$20,000 per month in accordance with the terms of the tenancy agreement signed by the Group and the related parties. The directors are of the opinion that leasing transactions are conducted in the ordinary course of business.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK\$0.02 per ordinary share for the six months ended 30th September, 2004. The interim dividend will be paid on or about 10th January, 2005 to members, whose names appear on the register of members of the Company at the close of business on 31st December, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30th September, 2004, the Group recorded a 25.4% growth in turnover over the same period in 2003 to HK\$96.2 million. Gross profit increased by 17.5% to HK\$30.9 million while gross profit margin dropped to 32% for the current period. The decrease in gross profit margin was mainly attributable to the rise in labor cost and the number of outsourcing works during the period under review.

The selling and distribution expenses of the Group for the six months ended 30th September, 2004 increased to approximately HK\$2.2 million. The administrative and other operating expenses increased by approximately 18.2% to HK\$7.8 million compared to approximately HK\$6.6 million for the same period of last year. The rise was mainly attributable to the expanded manpower and increased staff remuneration.

Profit attributable to shareholders for the period under review was HK\$19.4 million, which represented 14.2% increase compared with the corresponding period in last year. Basic earnings per share were approximately HK6.1 cents as compared to approximately HK5.4 cents in 2003.

Business Review

Geographical analysis

Japan continued to be the largest export market for the Group which recorded approximately HK\$46.3 million in turnover, representing 2.7% growth over the same period in 2003 and accounting for approximately 48.1% of the Group's total turnover. During the period under review, the Group's major customer in Japan, which used to



engage in sales of men belts only, started to place orders for lady belts this year, leading to a soar in the sales and offset the unfavourable impact of slow down of orders from other customers in Japan. Being the exclusive supplier for this customer, the Group believes that this major customer will continue to be one of the main driver for growth of sales in Japan.

Sales in Europe had also undergone a substantial increase to approximately HK\$20.5 million in the reviewing period. The Group benefited from the outstanding performance of its key customer's operation in Germany. Sales order from other customers, including some famous brands in United Kingdom, Netherlands and France had experienced an up-surge for the period under review. Total export sales to Europe accounted for 21.3% of the Group's total turnover, representing approximately 165% growth compared with the same period in 2003.

In addition, encouraging results had also been recorded in the Australian market of HK\$4.9 million, representing approximately 331% growth over last year. Market demand from Australian market for causal belts designed by the Group soared as supported by the growth in repeat orders received during the reviewing period.

The US market reported turnover of approximately HK\$7.2 million, representing a decrease of approximately 16.8% comparing with the same period in last year.

In view of Hong Kong and the PRC market, a mild increase has been recorded in the sales volume. One of the Group's strategies is to look for quality customers with low credit risk in order to secure the financial position of the Group. However, this strategy also resulted in relative slow expansion in the PRC market. Nevertheless, sales revenue from other countries such as Canada, Taiwan, Philippines, Singapore and Malaysia etc. rose by approximately 47.8%, to HK\$5.2 million.

Product Analysis

In terms of product mix, the sales of belt items remained the core part of the Group's OEM and ODM business. Revenue from the sales of belt items increased from approximately HK\$75.1 million to approximately HK\$91.9 million, representing a growth of 22.4% over the same period in 2003. Sales of small leather goods recorded approximately HK\$3.2 million for the six months ended 30th September, 2004, representing approximately 148.3% increase compared to same period in 2003. The surge was mainly attributable to the widened customer base and the increased demand for wallets and phone straps. During the period under review, the Group generated additional revenue of approximately HK\$764,000 from sales of handbags, backpacks and waist bags.

Prospects

Retail Shop Opening - Area 0264

The Group has launched new collections, including backpacks, handbags and waist bags of its own label "Stranger" which are sold through the local distribution channels of the young fashion apparel retailer, Bauhaus, to the market in July, 2004. Stranger, as the prime brand of the Group, focuses on the sales of a wide range of unisex trendy products for teens. In November, 2004, the first retail outlet of our Group - Area 0264 opened at Langham Place in Mongkok. Area 0264 is a multi-brand shop not only displaying full collection of Stranger's products, including handbag, backpack, belts and wallets, but also incorporating with various trendy and popular brands from Japan, Europe and the U.S. The second shop will be opened in Tsimshatsui in mid December, 2004. Upon the establishment of new retail outlets, the Group planned to embed more resources on brand building and promotion through a series of advertising campaigns such as advertisements on magazines, billboards and participation in sponsorship in the near future. In order to extend the sales network and build up the unique image for the retail outlets, 3-5 more retail outlets will be opened in the main commercial areas in Hong Kong next year. Backed up by a team of experienced and innovative design and product development professionals, the Group planned to launch more new products, including wallets, belts, backpacks, handbags as well as fashion items and accessories, such as jeans, T-shirts, jackets and watches. The widening of the product range could surely help enhancing the market penetration and increasing the market shares.

OEM and ODM Business

The dedication on high quality designs and products helps further strengthening the confidence of the customers upon our products. In order to accommodate the various and ever-changing requirements of different customers and maintain our competitiveness, the Group will focus on improving the product quality by further enhancing the product development capability. The Group will expand the existing product development team to develop a wider range of leather products for the Group's OEM and ODM customers. In the first half of fiscal year 2004/05, the Group experienced an encouraging growth in OEM and ODM businesses, among which, the export sales to Japan, Europe and Australia are the segments of the most significant growth.



Looking forward, based on our continuous effort on product development and the improved global market sentiment, the management is optimistic towards the Group's business performance for the coming fiscal year.

Use of Proceeds

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 12th March, 2003 (the "Listing Date"), after deduction of related issuance expenses, amounted to approximately HK\$29.3 million. The usage of the proceeds since its Listing Date and up to 30th September, 2004 was as follows:

- as to approximately HK\$1,270,000 for further development of the Group's production facilities in Dongguan;
- as to approximately HK\$700,000 for strengthening the Group's product development capability and diversifying the Group's product categories;
- as to approximately HK\$330,000 for promotion activities and further development of the Group's brand recognition; and
- as to approximately HK\$6,300,000 as general working capital of the Group.

As at 30th September, 2004, the balance of the proceeds of approximately HK\$20.7 million was placed on short-term deposits with licensed banks in Hong Kong.

Liquidity, Financial Resources and Capital Structure

As at 30th September, 2004, the Group's cash and bank deposits were approximately HK\$79.3 million, compared to approximately HK\$67.1 million as at 31st March, 2004.

As at 30th September, 2004, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$134.9 million as at 30th September, 2004 (31st March, 2004: HK\$113.1 million) and total current liabilities of approximately HK\$22.4 million (31st March, 2004: HK\$13.8 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 6 times as at 30th September, 2004 (31st March, 2004: 8.2 times).

Supported by its strong cash flows, the Group did not raise any bank loan during the period.

The Group recorded an increase in shareholders' funds from approximately HK\$105.7 million as at 31st March, 2004 to approximately HK\$119.4 million as at 30th September, 2004.

Treasury Policy

The Group generally finances its operation with internally generated resources.

Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or United States dollars such that the Group does not have significance exposure to foreign exchange fluctuation. Though the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is minimal.

Charges on Assets

The Group did not have any charges on its assets.

Material Acquisitions/Disposals

The Group had no material acquisitions/disposals for the six months ended 30th September, 2004.

Employee Information

As at 30th September, 2004, the Group had 31 full-time employees in Hong Kong and 69 full-time employees in the PRC. The Group remunerated its employees mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.



DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 30th September, 2004, the interests and short positions of the Directors in the shares and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions

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

Name	Capacity	Number of issued ordinary shares held	Approximate % of the issued share capital
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 <i>(Note 1(a))</i>	14.99
	Beneficial Owner	4,000,000	1.26
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	14.99
	Beneficial Owner	4,620,000	1.45
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.31

(b) Share Options

Name	Capacity	Number of options held	Number of underlying shares
Chan King Hong Edwin	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200
	Interest of spouse	3,181,200 <i>(Note 1(b))</i>	3,181,200
Chan King Yuen Stanley	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200
Chan Wai Po Rebecca	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200

Notes:

- 1(a). 47,727,352 shares are held by Leopark Worldwide Inc., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Hong Edwin.
- 1(b). An option to subscribe for 3,181,200 shares of the Company was granted to Ms. Li Shuk Han on 24th September, 2003, who is the spouse of Mr. Chan King Hong Edwin. By virtue of the SFO, Mr. Chan King Hong Edwin is taken to be interested in these 3,181,200 long positions held by Ms. Li Shuk Han.
2. 47,727,352 shares are held by New Paramount Profits Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Yuen Stanley.
3. 39,204,648 shares are held by Prevail Assets Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Ms. Chan Wai Po Rebecca.
4. On 24th September, 2003, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 3,181,200 shares of the Company. Details of the options are stated under section headed "Share Option" below.

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 30th September, 2004 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2004, the parties which had interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, were as follows:

Long positions

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

Name	Capacity	Number of issued ordinary shares held	Approximate % of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.99
New Paramount Profits Limited	Beneficial owner	47,727,352 <i>(Note i)</i>	14.99
Prevail Assets Limited	Beneficial owner	39,204,648 <i>(Note i)</i>	12.31
Smarty Worldwide Limited	Beneficial owner	39,204,648 <i>(Note ii)</i>	12.31
Chan Woon Man	Interest of a controlled corporation	39,204,648 <i>(Note ii)</i>	12.31
Li Shuk Han	Interest of spouse	51,727,352 <i>(Note iii)</i>	16.24

(b) Share Options

Name	Capacity	Number of options held	Number of underlying shares
Li Shuk Han	Beneficial owner and interest of spouse	6,362,400 <i>(Note iv)</i>	6,362,400
Chan Woon Man	Beneficial owner	3,181,200 <i>(Note ii)</i>	3,181,200

Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors interests in Shares and Share Options" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24th September, 2003.
- (iii) These shares are held by Mr. Chan King Hong Edwin and a company controlled by him. By virtue of the SFO, Ms. Li Shuk Han, who is the spouse of Mr. Chan King Hong Edwin, is taken to be interested in these long positions.
- (iv) Being an option to subscribe for 3,181,200 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 3,181,200 shares of the Company granted to Ms. Li Shuk Han on 24th September, 2003.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30th September, 2004.



SHARE OPTION

Pursuant to the written resolutions of all the shareholders of the Company passed on 18th February, 2003, the Company adopted a share option scheme.

No share options were granted, exercised, lapsed or cancelled during the six months ended 30th September, 2004.

Details of outstanding share options at 30th September, 2004 are set out as follows:

Name or category of participant	Date of grant	Outstanding as at 31st March, 2004 and 30th September, 2004	Exercisable period	Exercise price per share
(a) Executive directors				
Chan King Hong Edwin	24th Sept, 2003	3,181,200	24th Sept, 2003 - 23rd Sept, 2013	0.830
Chan King Yuen Stanley	24th Sept, 2003	3,181,200	24th Sept, 2003 - 23rd Sept, 2013	0.830
Chan Wai Po Rebecca	24th Sept, 2003	3,181,200	24th Sept, 2003 - 23rd Sept, 2013	0.830
(b) Employees, in aggregate				
	26th May, 2003	516,000	26th May, 2003 - 25th May, 2013	0.580
	24th Sept, 2003	6,362,400	24th Sept, 2003 - 23rd Sept, 2013	0.830
(c) Others, in aggregate				
	26th May, 2003	3,000,000	26th May, 2003 - 25th May, 2013	0.580
Total		<u>19,422,000</u>		

Notes:

- (i) The closing price of the shares of the Company immediately before 26th May, 2003 at which the share options were granted was HK\$0.580.
- (ii) The closing price of the shares of the Company immediately before 24th September, 2003 at which the shares options were granted was HK\$0.800.
- (iii) All the options were immediately vested upon granted.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and share options" and "Share option" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30th September, 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the period ended 30th September, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.



AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 18th February, 2003. The written terms of reference which disclose the authority and duties of the Audit Committee were prepared and accepted with reference to "A Guide from the Foundation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive directors, namely Ms. Chau Cynthia Sin Ha, Mr. Fong Pui Sheung, David and Mr. Or Kam Chung, Janson. The unaudited interim financial statements for the six months ended 30th September, 2004 have been reviewed by the Audit Committee.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the six months ended 30th September, 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29th December, 2004 to Friday, 31st December, 2004, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Tuesday, 28th December, 2004

By order of the Board
Chan King Hong Edwin
Chairman

Hong Kong, 9th December, 2004