



理文造紙有限公司*
Lee & Man Paper Manufacturing Limited
(Incorporated in the Cayman Islands with limited liability)

2004/05
INTERIM REPORT



* For identification purposes only



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Corporate information

BOARD OF DIRECTORS

Mr. Lee Wan Keung, Patrick (*Chairman*)
Mr. Lee Man Chun, Raymond
(*Chief executive officer*)
Mr. Lee Man Bun
Mr. Tan Siak Him, Alexander
Mr. Wong Kai Tung, Tony*
Mr. Heng Kwo Seng*

* *Independent non-executive director*

COMPANY SECRETARY

Mr. Cheung Kwok Keung

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Liven House
61-63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKERS

In Hong Kong:
Hang Seng Bank Limited
Standard Chartered Bank

In the PRC:
China Construction Bank
Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of China

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

WEBSITE

<http://www.leemanpaper.com>

The board of directors of Lee & Man Paper Manufacturing Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

	Notes	Six months ended 30 September	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	1,257,701	798,631
Cost of sales		(988,001)	(610,083)
Gross profit		269,700	188,548
Other operating income		3,114	6,730
Distribution costs		(21,961)	(13,298)
Administrative expenses		(49,699)	(32,519)
Profit from operations	3	201,154	149,461
Interest on bank borrowings wholly repayable within 5 years		(4,036)	(8,533)
Profit before taxation		197,118	140,928
Taxation	4	(2,830)	(3,000)
Profit for the period		194,288	137,928
Interim dividend		—	—
Earnings per share (HK cents)	5		
— Basic		20.31	24.30
— Diluted		20.22	24.15

Interim results

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2004

	Notes	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	6	2,560,132	2,025,562
Deposits paid on acquisition of property, plant and equipment		67,941	113,359
		2,628,073	2,138,921
CURRENT ASSETS			
Inventories	7	337,101	469,070
Trade and bills receivables	8	326,520	287,718
Deposits, prepayments and other receivables		336,995	158,998
Retirement benefit assets		1,254	1,254
Amount due from a fellow subsidiary		24,254	1,444
Bank balances and cash		61,593	351,718
		1,087,717	1,270,202
CURRENT LIABILITIES			
Trade and bills payables	9	66,797	120,574
Accruals and other payable		190,529	122,915
Taxation payable		10,080	7,250
Land costs payable — due within one year		—	9,553
Bank borrowings — due within one year		401,801	578,196
		669,207	838,488
NET CURRENT ASSETS		418,510	431,714
TOTAL ASSETS LESS CURRENT LIABILITIES		3,046,583	2,570,635
NON-CURRENT LIABILITIES			
Amount due to ultimate holding company		—	357,485
Bank borrowings — due after one year		230,280	309,752
		230,280	667,237
		2,816,303	1,903,398
CAPITAL AND RESERVES			
Share capital	10	96,155	84,053
Reserves		2,720,148	1,819,345
		2,816,303	1,903,398

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2004*

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash generated from operating activities	70,040	126,952
Net cash used in investing activities	(464,683)	(322,585)
Net cash generated from financing activities	104,518	513,281
Net (decrease) increase in cash and cash equivalents	(290,125)	317,648
Cash and cash equivalents brought forward	351,718	23,261
Cash and cash equivalents carried forward represented by bank balances and cash	61,593	340,909

Interim results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2004	84,053	1,042,438	19,463	(2,999)	760,443	1,903,398
Issue of shares	12,102	801,923	—	—	—	814,025
Exchange difference arising from translation of financial statements of overseas operations	—	—	747	—	—	747
Profit for the period	—	—	—	—	194,288	194,288
Dividend paid	—	—	—	—	(96,155)	(96,155)
At 30 September 2004	96,155	1,844,361	20,210	(2,999)	858,576	2,816,303

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Accumulated profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2003	—	—	18,950	1	475,565	494,516
Issue of shares on acquisition of subsidiaries	3,000	—	—	—	—	3,000
Issue of shares under global offering	18,750	763,125	—	—	—	781,875
Issue of shares by capitalization of share premium	53,250	(53,250)	—	—	—	—
Expenses incurred in connection with the issue of shares	—	(32,695)	—	—	—	(32,695)
Reserve arising on acquisition of subsidiaries	—	—	—	(3,000)	—	(3,000)
Exchange difference arising from translation of financial statements of overseas operations	—	—	449	—	—	449
Profit for the period	—	—	—	—	137,928	137,928
Transfer to reserves	—	—	(11,181)	—	11,181	—
At 30 September 2003	75,000	677,180	8,218	(2,999)	624,674	1,382,073

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2004

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and with the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2004.

2. SEGMENTAL INFORMATION

Business Segments

No business segment analysis is provided as over 90% of the Group's turnover and contribution to results were derived from the manufacture and sales of paper.

Geographical Segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		Contribution to profit from operations	
	Six months ended 30 September		Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
PRC other than Hong Kong	586,163	283,504	93,663	52,893
Export sales delivered in the PRC*	613,040	504,907	97,958	94,530
Others	58,498	10,220	9,347	1,843
	1,257,701	798,631	200,968	149,266
Interest income			186	195
Finance costs			(4,036)	(8,533)
Profit before taxation			197,118	140,928
Taxation			(2,830)	(3,000)
Profit attributable to shareholders			194,288	137,928

* These are sales to PRC customers who ultimately export the goods outside the PRC.

Since the goods sold to various geographical markets were produced from the same production facilities, analysis of assets and liabilities by geographical market is not presented.

Interim results

3. PROFIT FROM OPERATIONS

	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments	1,140	1,231
Other staff costs	26,490	19,992
Retirement benefits scheme contributions	518	458
Total staff costs	28,148	21,681
Depreciation and amortization	35,634	24,725
Loss on disposal of property, plant and equipment	15	34
Loss on write-off of property, plant and equipment	7,312	—
Operating lease rentals in respect of land and buildings	522	397

4. TAXATION

A substantial portion of the Group's profits neither arose in, nor was derived from, Hong Kong and therefore was not subject to Hong Kong Profits Tax.

The subsidiaries in the PRC are entitled to exemption from PRC Foreign Enterprise Income Tax for the two years starting from its first profit-making year, followed by a 50% relief for the three years thereafter. The taxation charge represents the PRC Foreign Enterprise Income Tax after taking into account the relevant tax incentives.

The subsidiary in Malaysia carries on offshore trading activities in Labuan, Malaysia, in a currency other than the Malaysian currency with other group companies which are non-residents of Malaysia. The tax rate for offshore trading companies in Labuan is charged at a fixed annual rate of Malaysian RM20,000.

Under Decree-Law No. 58/99/M, a Macau company incorporated under the Law (called "58/99/M Company") is exempted from Macau complementary tax (Macau income tax) as long as the 58/99/M Company does not sell its products to a Macau resident company. The subsidiaries in Macau are qualified as 58/99/M Companies.

In the opinion of the directors, the Group is not subject to taxation in any other jurisdictions in which the Group operates.

5. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	194,288	137,928
	Number of shares	Number of shares
Weighted average number of share for the purpose of basic earnings per share	956,612,765	567,622,950
Potential dilutive effect arising from over-allotment option and share options	4,374,933	3,509,968
Weighted average number of share for the purpose of diluted earnings per share	960,987,698	571,132,918

6. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$578 million (six months ended 30 September 2003: HK\$300 million) on property, plant and equipment to expand its operations.

7. INVENTORIES

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Raw materials	296,127	438,062
Finished goods	40,974	31,008
	337,101	469,070

8. TRADE AND BILLS RECEIVABLES

The credit terms granted by the Group to its customers normally range from 45 days to 60 days. An aging analysis of the trade and bills receivables is as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Aged		
Less than 30 days	205,330	218,565
31-60 days	85,407	61,070
61-90 days	19,593	4,194
Over 90 days	16,190	3,889
	326,520	287,718

9. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables is as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Aged		
Less than 30 days	40,649	106,774
31-60 days	8,920	6,098
61-90 days	2,324	461
Over 90 days	14,904	7,241
	66,797	120,574

Interim results

10. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorized:		
Ordinary shares of HK\$0.10 each		
On date of incorporation	3,800,000	380
Increase in authorized share capital	1,996,200,000	199,620
At 31 March 2004 and 30 September 2004	2,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
Issue of share to subscriber	1	—
Issue of shares on acquisition of subsidiaries	29,999,999	3,000
Issue of shares by capitalization of share premium	532,500,000	53,250
Issue of shares under global offering	187,500,000	18,750
Exercise of over-allotment option	28,124,000	2,812
Exercise of share options	62,406,000	6,241
At 31 March 2004	840,530,000	84,053
Issue of new shares	120,000,000	12,000
Exercise of share options	1,018,000	102
At 30 September 2004	961,548,000	96,155

The Company was incorporated on 21 May 2003 with an authorised share capital of HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.10 each. On the same date, 1 share of HK\$0.10 was allotted and issued, for cash at par, to the subscriber.

Notes:

- 120,000,000 ordinary shares were issued on 8 April 2004 pursuant to a top-up placing and subscription arrangement.
- During the period, 1,018,000 share options under the Pre-IPO Share Option Scheme were exercised at a subscription price of HK\$4.17 per share, resulting in the issue of 1,018,000 ordinary shares of HK\$0.10 each in the Company.

All the shares issued during the period rank pari passu with the then existing shares in all respects.

11. COMMITMENTS

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	424,045	537,419

12. OPERATING LEASE COMMITMENTS

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Within one year	861	425
In the second to fifth year inclusive	252	203
	1,113	628

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of one year with fixed rentals.

13. PLEDGE OF ASSETS

At the respective balance sheet date, banking facilities granted by certain banks to the Group were secured by the assets of the Group as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Property, plant and equipment	—	28,511

14. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with the related parties during the period as follows:

	Notes	Six months ended 30 September	
		2004 HK\$'000	2003 HK\$'000
Finished goods sold	(a)	43,583	40,519
Waste paper purchased	(b)	3,778	3,226
Steam sold	(c)	780	780
Licence fee paid	(d)	431	352
Management fee paid	(e)	366	72

Notes:

- (a) The prices are based on the monthly quote given by the Group provided that the quote is not higher than the prevailing market price at the time of such quotation.
- (b) The prices are based on the monthly quote given by Lee & Man Industrial Manufacturing Limited provided that the quote is not higher than the prevailing market price at the time of such quotation.
- (c) Lee & Man Industrial Manufacturing Limited will pay to the Group a monthly fee of HK\$130,000 (which is approximately the cost of coal incurred to produce steam in the past) for the supply of steam by the Group.
- (d) The licence fee is HK\$40,000 per month for the use of certain pre-determined areas plus an amount calculated on the basis of any additional space occupied at the rate of HK\$8 per square metre per month.
- (e) The management fee paid to Lee & Man Management Co. Ltd. is for the use of its administrative and secretarial services and the right to use its premises as registered office.

The directors have confirmed that the above transactions were conducted in the normal course of the Group's business.

15. REVIEW OF INTERIM ACCOUNTS

The condensed interim financial statements are unaudited, but have been reviewed by the Audit Committee.

Business review and outlook

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 September 2004. (2003: nil)

BUSINESS REVIEW AND OUTLOOK

For the first six months of 2004/2005, the group achieved revenue of HK\$1,257.7 million and net profit of HK\$194.3 million on 438,430 tons of paper sold. This represents an increase in revenue of 57.5% and an increase in net profit of 40.9% over the same period last year. The growth in capacity and profit in the first half of this financial year came mostly from contributions from our PM5 at Changshu mill, which started production in January 2004. PM5 is now running at full capacity (of 200,000MT/year) and we expect it to make further contributions to the Group in years to come.

Needless to say, the first six months was not without difficulties for us. The major concerns were the rising coal price, transportation costs and wages. Fortunately, we had been successful in passing the increased cost to our customers. As a result, we maintained our margins.

We are optimistic about achieving better results in the next six months. We expect contributions from PM6, our second production line at Changshu. PM6, which has an annual production capacity of 350,000 metric tons of corrugated medium, started operation in September 2004. It brings the Group's total containerboard output capacity to 1.2 million metric tons, making the Group one of the largest containerboard producers in the world.

Looking ahead, the Group will forge ahead with its next main development project — the construction of its third production plant located at Dongguan Hongmei, which will allow it to capture the continuously growing demand for quality containerboard in the Pearl River Delta region. We committed to purchasing land and production machine in early 2004 and staff members who are responsible for the project are now following up on construction of the plant. Scheduled to start operation in the fourth quarter of 2005, PM7 at Dongguan Hongmei will have an annual production capacity of 400,000 metric tons of linerboard, and increase the Group's total containerboard production capacity to 1.6 million metric tons. The Group anticipates the further strengthening of its position in the world containerboard market and impressive profit achievements.

RESULTS OF OPERATION

Turnover and net profit attributable to shareholders for the six months ended 30 September 2004 was HK\$1,257.7 million and HK\$194.3 million, representing an increase of 57.5% and 40.9%, as compared to HK\$798.6 million and HK\$137.9 million, respectively, for the corresponding period last year. The earnings per share for the period was HK20.31 cents when compared with HK24.30 cents for the corresponding period last year.

The increase in turnover and net profit were mainly attributable to the significant increase in the Group's sales of containerboard with the commencement of the commercial operation of the paper machine V in January 2004.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

The Group's distribution costs and administrative expenses increased by approximately 65.1% and 52.8% from HK\$13.3 million and HK\$32.5 million for the six months ended 30 September 2003 to HK\$22.0 million and HK\$49.7 million for the six months ended 30 September 2004 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period.

INTEREST EXPENSES

The Group's interest expenses decreased by approximately 52.7% from HK\$8.5 million for the six months ended 30 September 2003 to HK\$4.0 million for the six months ended 30 September 2004. The decrease in interest expenses was mainly due to the decrease in the average amount of outstanding bank loans as a result of the proceeds being received from the top-up placing and subscription during the period.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group's raw materials and finished products decreased from 113 days and 7 days, respectively, for the year ended 31 March 2004 to 79 days and 6 days, respectively, for the six months ended 30 September 2004. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 47 days for the six months ended 30 September 2004 as compared to 62 days for the year ended 31 March 2004. This is in line with the credit terms of 45 days to 60 days granted by the Group to its customers.

The Group's creditors' turnover days decreased from 34 days for the year ended 31 March 2004 to 16 days for the six months ended 30 September 2004 as the Group settled part of its creditor balance with surplus cash near the period end.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' fund of the Group as at 30 September 2004 was HK\$2,816 million (31 March 2004: HK\$1,903 million). As at 30 September 2004, the Group had current assets of HK\$1,088 million (31 March 2004: HK\$1,270 million) and current liabilities of HK\$669 million (31 March 2004: HK\$838 million). The current ratio was 1.63 as at 30 September 2004 as compared to 1.51 at 31 March 2004.

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 September 2004, the Group had outstanding bank borrowings of HK\$632 million (31 March 2004: outstanding bank borrowings of HK\$888 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) decreased from 0.47 as at 31 March 2004 to 0.20 as at 30 September 2004 as a result of the net proceeds raised from the top-up placing and subscription.

The Group liquidity position remains strong and the Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments for expansion.

The Group's transactions and the monetary assets are principally denominated in Renminbi, Hong Kong dollars or United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 September 2004. During the six months ended 30 September 2004, the Group has not employed any financial instrument for hedging purposes.

USE OF PROCEEDS FROM THE TOP-UP PLACING AND SUBSCRIPTION

The net proceeds from the Placement and Subscription which was completed in April 2004, were approximately HK\$804 million and were earmarked as to approximately HK\$500 million for the acquisition cost of the main unit paper machine VII and costs of ancillary and support equipment such as preparation unit, pumps and cranes which are expected to be incurred over the next year. The proceeds from the Placement and Subscription not immediately applied towards the purchase of paper machine VII have been employed as general working capital.

EMPLOYEES

As at 30 September 2004, the Group had a workforce of more than 2,300 people. Salaries of employees are maintained at competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Company.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

The Group has a Pre-IPO Share Option Scheme whereby employees of the Group are granted options to acquire shares in the Company.

PRE-IPO SHARE OPTION SCHEME

At 30 September 2004, the particulars of the options held by each of the directors of the Company, the other employees of the Company in aggregate and other participants and which were granted on 11 September 2003 under the Pre-IPO Share Option Scheme of the Company at the offer price of HK\$4.17 were as follows:

Grantee	Number of share options held/ outstanding at 1/4/2004	Exercise during the period	Number of share options held/ outstanding at 30/9/2004
Tan Siak Him, Alexander	3,000,000	(264,000)	2,736,000
Heng Kwo Seng	1,800,000	—	1,800,000
Wong Kai Tung, Tony	1,000,000	—	1,000,000
Other employees	4,894,000	(254,000)	4,640,000
Others	1,900,000	(500,000)	1,400,000
	12,594,000	(1,018,000)	11,576,000

All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options as follows:

27/3/2004 – 25/9/2004	up to 50% of options granted
Until 25/9/2005	up to 75% of options granted
Until 25/9/2006	up to 100% of options granted

The consideration paid by each grantee for options granted to them was HK\$1.00.

Other information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN EQUITY OR DEBT SECURITIES

As at 30 September 2004, the relevant interests or short positions of the directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 or Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the relevant provisions of the Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange are as follows:

(a) Long positions in shares

Name of director	Capacity	Number of shares	Number of shares subject to options granted under the Pre-IPO Share Option Scheme	Approximate percentage of issued shares
Lee Wan Keung, Patrick	Founder of a discretionary trust and discretionary object	715,518,000 (Note)	—	74.41%
Lee Man Chun, Raymond	Discretionary object	715,518,000 (Note)	—	74.41%
Lee Man Bun	Discretionary object	715,518,000 (Note)	—	74.41%
Tan Siak Him, Alexander	Personal	Nil	2,736,000	0.28%
Heng Kwoo Seng	Personal	Nil	1,800,000	0.19%
Wong Kai Tung, Tony	Personal	Nil	1,000,000	0.10%

Note: These shares are held by Gold Best, whose entire issued share capital is held by Newcourt Trustees Limited ("Newcourt Trustees") as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr. Lee Wan Keung, Patrick, Mr. Lee Man Chun, Raymond and Mr. Lee Man Bun (all of them are directors), certain of their family members and other charitable objects. Under the SFO, Mr. Lee Wan Keung, Patrick is also the founder of The Fortune Star 1992 Trust.

(b) Long positions in shares of the associated corporations of the Company

Name of director	Capacity	Name of associated company	Number of shares	Percentage of the issued shares of the associated company
Lee Wan Keung, Patrick	Founder of a discretionary trust and discretionary object	Gold Best	5 (Note)	100%
Lee Man Chun, Raymond	Discretionary object	Gold Best	5 (Note)	100%
Lee Man Bun	Discretionary object	Gold Best	5 (Note)	100%

Note: As Gold Best owns more than 50% of the Company, Gold Best is an associated corporation of the Company under the SFO. The entire issued share capital of Gold Best is owned by Newcourt Trustees as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr. Lee Wan Keung, Patrick, Mr. Lee Man Chun, Raymond and Mr. Lee Man Bun (all of them are directors), certain of their family members and other charitable objects.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as is known to any director or chief executive of the Company, as at 30 September 2004, the following persons (other than a director or chief executive of the Company) have an interest or short position in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Division 2 and 3 and Part XV of the SFO:

Long positions in shares

Name of shareholder	Capacity	Number of shares	Approximate percentage of issued shares
Gold Best	Beneficial	715,518,000	74.41%
Newcourt Trustees	Corporate	715,518,000	74.41%
Lee Wong Wai Kuen	Family	715,518,000 (Note)	74.41%

Note: Under the SFO, Ms. Lee Wong Wai Kuen is deemed to be interested in the shares as she is the spouse of Mr. Lee Wan Keung, Patrick, the chairman and director. Under the SFO, Mr. Lee Wan Keung, Patrick is also a founder of The Fortune Star 1992 Trust.

Other information

Apart from the interests disclosed above, as at 30 September 2004, no persons or corporation had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as having an interest in 5 percent or more of the issued shares of the Company.

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 30 September 2004.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Group's unaudited interim financial statements for the six months ended 30 September 2004.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part, in compliance with the Code of Best Practice as set out in the Listing Rules at any time during the six months ended 30 September 2004, except that the Company is not in compliance with Rule(s) 3.10 and 3.21 of the Listing Rules in connection with the requirements to meet the number of independent non-executive directors and the number of members of audit committee. The Company is now taking steps to identify suitable candidate for appointment as independent non-executive director as soon as possible.

On behalf of the Board
Lee Wan Keung, Patrick
Chairman

Hong Kong, 24 November 2004