



**PME GROUP LIMITED**

**必美宜集團有限公司**

(incorporated in the Cayman Islands with limited liability)

Interim Report

**2005**

*Solution  
Provider*



The Board of Directors (the "Directors") of PME Group Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 (the "Period") and the comparative figures for the corresponding period in 2004 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 June</b>	
		<b>2005</b>	2004
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
	Notes		
Turnover	3	<b>67,737</b>	63,656
Cost of sales		<b>(43,545)</b>	(35,091)
Gross profit		<b>24,192</b>	28,565
Other operating income		<b>942</b>	253
Selling and distribution expenses		<b>(6,288)</b>	(4,615)
Administrative expenses		<b>(11,997)</b>	(12,035)
Profit from operations	4	<b>6,849</b>	12,168
Finance costs	5	<b>(332)</b>	(505)
Profit before taxation		<b>6,517</b>	11,663
Taxation	6	<b>(1,051)</b>	(1,980)
Net profit for the Period		<b>5,466</b>	9,683
Attributable to:			
Shareholders of the Company		<b>5,422</b>	9,683
Minority interests		<b>44</b>	–
		<b>5,466</b>	9,683
Dividend	7	<b>1,629</b>	2,880
Earnings per share – Basic and diluted	8	<b>HK 0.57 cent</b>	HK 1.05 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and machinery		129,277	125,312
Investments in securities		–	6,144
Available-for-sale investments		2,738	–
Other assets		3,903	3,903
Club debentures		350	350
		<b>136,268</b>	<b>135,709</b>
<b>Current assets</b>			
Inventories		33,343	28,177
Debtors, deposits and prepayments	9	55,593	52,393
Loan receivable		1,852	7,860
Taxation recoverable		2,245	1,550
Bank balances and cash		36,878	36,800
		<b>129,911</b>	<b>126,780</b>
<b>Current liabilities</b>			
Creditors and accruals	10	4,011	8,376
Taxation payable		1,302	925
Obligations under a finance lease		235	165
Bank borrowings		14,990	12,290
		<b>20,538</b>	<b>21,756</b>
<b>Net current assets</b>		<b>109,373</b>	<b>105,024</b>
<b>Total assets less current liabilities</b>		<b>245,641</b>	<b>240,733</b>
<b>Non-current liabilities</b>			
Obligations under a finance lease		84	235
Deferred taxation		4,678	4,678
		<b>4,762</b>	<b>4,913</b>
		<b>240,879</b>	<b>235,820</b>
<b>Capital and reserves</b>			
Share capital	11	9,580	9,580
Share premium and reserves		231,045	226,240
Equity attributable to shareholders of the Company		240,625	235,820
Minority interests		254	–
<b>Total Equity</b>		<b>240,879</b>	<b>235,820</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital HK\$'000	Share premium HK\$'000	Property Investment			Retained profits HK\$'000	Minority interests HK\$'000	Total HK\$'000
			Special reserve HK\$'000	revaluation reserve HK\$'000	revaluation reserve HK\$'000			
<b>At 1 January 2005</b>	<b>9,580</b>	<b>202,296</b>	<b>(38,581)</b>	<b>9,754</b>	<b>633</b>	<b>52,138</b>	<b>-</b>	<b>235,820</b>
Capital contribution by minority shareholders	-	-	-	-	-	-	210	210
Written back on disposals	-	-	-	-	(471)	-	-	(471)
Revaluation decrease on investments	-	-	-	-	(146)	-	-	(146)
Net profit for the Period	-	-	-	-	-	5,422	44	5,466
<b>At 30 June 2005</b>	<b>9,580</b>	<b>202,296</b>	<b>(38,581)</b>	<b>9,754</b>	<b>16</b>	<b>57,560</b>	<b>254</b>	<b>240,879</b>
At 1 January 2004	8,000	134,480	(38,581)	11,700	-	45,780	-	161,379
Shares issued at premium on placing	1,600	70,400	-	-	-	-	-	72,000
Share issue expenses	-	(2,303)	-	-	-	-	-	(2,303)
Dividends paid	-	-	-	-	-	(12,000)	-	(12,000)
Net profit for the period	-	-	-	-	-	9,683	-	9,683
<b>At 30 June 2004</b>	<b>9,600</b>	<b>202,577</b>	<b>(38,581)</b>	<b>11,700</b>	<b>-</b>	<b>43,463</b>	<b>-</b>	<b>228,759</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30 June</b>	
	<b>2005</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2004 (Unaudited) HK\$'000
Net cash inflow from operating activities	<b>643</b>	1,796
Net cash outflow from investing activities	<b>(3,184)</b>	(8,127)
Net cash inflow from financing activities	<b>722</b>	55,900
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(1,819)</b>	49,569
Cash and cash equivalents at beginning of period	<b>36,800</b>	17,969
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>34,981</b>	67,538
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>36,878</b>	67,538
Bank overdrafts	<b>(1,897)</b>	–
	<b>34,981</b>	67,538

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and 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").

### 2. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those adopted in the Group's audited financial statements for the year ended 31 December 2004 except as described below.

In the 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 accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has had no material impact on the Group's accounting policies and the methods of computation in the Group's condensed consolidated financial statements for the six months ended 30 June 2005, except the followings:

#### (a) HKAS 1 "Presentation of Financial Statements" ("HKAS 1")

The application of the HKAS 1 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 change in presentation has been applied retrospectively.

## 2. ACCOUNTING POLICIES (Continued)

### (b) HKAS 17 “Leases” (“HKAS 17”)

The application of the 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. Under HKAS 17, the land and buildings elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, the leasehold interests in land continue to be accounted for as property, plant and equipment. In current and prior periods, the Group’s leasehold land and buildings were continued to be included in property, plant and equipment as the land and buildings elements cannot be allocated reliably.

### (c) HKAS 39 “Financial Instruments: Recognition and Measurement” (“HKAS 39”)

The application of the HKAS 39 has resulted in a change in the presentation of balance sheet. In particular, the presentation of investments in securities has been reclassified to available-for-sale investments. Except for the presentation, the adoption of the HKAS 39 had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements in the current and prior periods.

### 3. SEGMENTAL INFORMATION

The analysis of the turnover and segment result of the Group by operating divisions during the Period is as follows:

	Turnover		Segment result	
	Six months ended 30 June			
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
<b>Operating divisions</b>				
Manufacturing products	31,892	27,378	3,415	7,735
Trading products	33,784	34,835	987	3,415
Technical services	2,061	1,443	1,505	765
	<b>67,737</b>	63,656	<b>5,907</b>	11,915
Other operating income			942	253
Profit from operations			6,849	12,168
Finance costs			(332)	(505)
Profit before taxation			6,517	11,663
Taxation			(1,051)	(1,980)
Net profit for the Period			5,466	9,683

The Group's operations are located in Hong Kong and Mainland China. The Group's trading division is mainly located in Hong Kong. Manufacturing and technical services are carried out in Mainland China.

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

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Hong Kong	36,201	39,160
Mainland China	24,428	19,976
Other Asian regions	4,489	2,425
North America and Europe	1,018	624
Other countries	1,601	1,471
	<b>67,737</b>	63,656



#### 4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation and amortisation:		
– Own assets	<b>2,454</b>	2,750
– Asset held under a finance lease	<b>93</b>	93
Cost of inventories sold	<b>43,545</b>	35,091
Revaluation decrease on investments	<b>65</b>	–
Profit on disposals of investments	<b>(503)</b>	–
Dividend income	<b>(179)</b>	–

#### 5. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<b>318</b>	490
Interest on finance lease	<b>14</b>	15
	<b>332</b>	505

#### 6. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Current period:		
– Hong Kong Profits Tax	<b>1,051</b>	1,793
– Deferred tax	<b>–</b>	187
	<b>1,051</b>	1,980

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both periods.

## 7. DIVIDEND

	<b>Six months ended 30 June</b>	
	<b>2005 (Unaudited) HK\$'000</b>	2004 (Unaudited) HK\$'000
Interim dividend	<b>1,629</b>	2,880

The Directors resolved that an interim dividend of HK0.17 cent per share for the six months ended 30 June 2005 (2004 : HK 0.3 cent) to be paid to the shareholders whose names register in the Company's register of members on 20 October 2005. The dividend warrants will be dispatched at around 27 October 2005.

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit for the Period attributable to the shareholders of the Company of HK\$5,422,000 (2004: HK\$9,683,000) and the weighted average number of 958,000,000 (2004: 924,835,165) ordinary shares in issue during the Period.

There is no difference between the basic and diluted earnings per share as the Company has no potential dilutive ordinary shares during both periods.

## 9. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 60 to 90 days to its trade debtors. In addition, for certain customers with well-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK\$46,184,000 (31 December 2004: HK\$44,271,000) which are included in the debtors, deposits and prepayments is as follows:

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Within 30 days	<b>17,148</b>	26,281
31 to 60 days	<b>11,257</b>	11,383
61 to 90 days	<b>11,404</b>	4,012
Over 90 days	<b>6,375</b>	2,595
	<b>46,184</b>	44,271
Other debtors, deposits and prepayments	<b>9,409</b>	8,122
	<b>55,593</b>	52,393

## 10. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK\$2,789,000 (31 December 2004: HK\$4,942,000) which are included in the creditors and accruals is as follows:

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Within 30 days	<b>1,702</b>	2,600
31 to 60 days	<b>913</b>	723
61 to 90 days	<b>161</b>	812
Over 90 days	<b>13</b>	807
	<b>2,789</b>	4,942
Other creditors and accruals	<b>1,222</b>	3,434
	<b>4,011</b>	8,376

## 11. SHARE CAPITAL

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Authorised: 10,000,000,000 ordinary shares of HK\$0.01 each	<b>100,000</b>	100,000
Issued and fully paid: 958,000,000 ordinary shares of HK\$0.01 each	<b>9,580</b>	9,580

## 12. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2005 and 31 December 2004.

## 13. CAPITAL COMMITMENTS

The Group had no material capital commitment as at 30 June 2005. At 31 December 2004, the Group had capital commitment of HK\$96,000 in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements.

## 14. PLEDGE OF ASSETS

At 30 June 2005, leasehold land and buildings with an aggregate carrying value of approximately HK\$87,700,000 (31 December 2004: HK\$88,700,000) were pledged to banks to secure banking facilities granted to the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Financial Performance

The Group is principally engaged in the manufacturing of **Pme** branded industrial abrasive products in Mainland China and trading of various global brands of industrial abrasive products. More than 90% of the Group's turnover is contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

The Group's turnover for the Period was moderately increased by 6.4% to HK\$67.7 million as compared with the corresponding period in 2004. Net profit for the Period attributable to the shareholders of the Company was approximately HK\$5.4 million, representing a decrease of 44.0%. Chain reaction caused by substantial increases in crude oil prices led to a rise in cost of sales, including increase in the raw material costs and the manufacturing overheads, which greatly affected our gross profit margin. It was difficult to transfer the increased costs to our customers due to keen competition in the market. An unexpected bad debt provision resulting from the collapse of an eye-care group in June 2005 has also reduced the Group's net profit for the Period.

### Liquidity and Financial Resources

At 30 June 2005, the Group had interest-bearing bank borrowings of approximately HK\$15.0 million (31 December 2004: HK\$12.3 million), which were to mature within one year. The directors expect that all the bank borrowings will be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations. At 30 June 2005, the Group's leasehold land and buildings, with aggregate carrying value of approximately HK\$87.7 million (31 December 2004: HK\$88.7 million), have been pledged to banks to secure banking facilities granted to the Group.

At 30 June 2005, current assets of the Group amounted to approximately HK\$129.9 million (31 December 2004: HK\$126.8 million). The Group's current ratio was approximately 6.33 as at 30 June 2005 as compared with 5.83 as at 31 December 2004. At 30 June 2005, the Group had total assets of approximately HK\$266.2 million (31 December 2004: HK\$262.5 million) and total liabilities of approximately HK\$25.3 million (31 December 2004: HK\$26.7 million), representing a gearing ratio (measured as total liabilities to total assets) of 9.5% as at 30 June 2005 as compared with 10.2% as at 31 December 2004.

## Use of Proceeds from Placement of New Shares

Part of the net proceeds from the placement of the new shares of the Company in February 2004 has been applied as follows:

- approximately HK\$11.2 million to improve and expand the production facilities of the Group;
- approximately HK\$3.7 million to support the research and development of the Group's products;
- approximately HK\$1 million to explore and develop the market for the Group in the eastern China;
- approximately HK\$5 million to reduce the Group's bank borrowings; and
- approximately HK\$36.7 million retained as general working capital and for future investment purposes.

The remaining balance of the net proceeds of approximately HK\$12.1 million is intended to be applied as follows:

- approximately HK\$3.8 million to improve and expand the production facilities of the Group;
- approximately HK\$1.3 million to support the research and development of the Group's products; and
- approximately HK\$7 million to explore and develop the market for the Group in the eastern China.

## Foreign Exchange Exposures

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are either in Hong Kong dollars or Renminbi. As Hong Kong dollars have been pledged with US dollars, and the exchange rate of Renminbi against Hong Kong dollars is relatively stable, the directors consider that the Group has no material currency exchange risk exposures.

## Outlook

From an economic point of view, the Hong Kong economic environment is now on a firm foundation. The economic growth of Mainland China, as in previous years, will continue (the general forecast is around 9% growth). Hong Kong and the Pearl River Delta are two most important regions for us and it accounted for over 90% of our revenue. Our sales to the Yangtze River Delta region are steadily increasing and more resources will be spent on marketing promotion activities. Opening up sales distribution channels, diversifying product ranges and searching for and negotiating with powerful business partners (due to frequent changes of government policies in Mainland China, some projects have been slowed) remain our striving direction. Cost control remains our top issue. The appreciation of Renminbi has certainly increased the costs of our manufacturing products. Stringent cost control policies are being implemented in order to maintain the competitiveness of our products. As such, we are conservatively optimistic for the second half of 2005.

## Employees and Remuneration

At 30 June 2005, the Group had approximately 280 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2005, the directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as 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 Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long positions in the ordinary shares of the Company:

Directors	Number of shares held			Percentage of interests
	Personal Interests	Corporate interests	Total interests	
Mr. Cheng Kwok Woo	54,400,000	318,438,000 (note)	372,838,000	38.92%
Mr. Cheng Kwong Cheong	54,400,000	318,438,000 (note)	372,838,000	38.92%
Ms. Cheng Wai Ying	54,400,000	318,438,000 (note)	372,838,000	38.92%
Ms. Chan Yim Fan	8,205,333	–	8,205,333	0.86%

Note: These shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of PME Investments is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.



## **DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the Period were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding company, or subsidiaries a party to any arrangement to enable the directors or chief executive to acquire such rights in any other corporate.

## **SHARE OPTION SCHEME**

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group.

At 30 June 2005, no share option has been offered and/or granted to any participants under the share option scheme.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2005, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules, the following persons were interested (including short positions) in shares or underlying shares of the Company:

Long positions in the ordinary shares of the Company:

Name	Notes	Number of shares held	Percentage of interests
PME Investments	1	318,438,000	33.24%
Mr. Cheng Kwok Woo	2	372,838,000	38.92%
Mr. Cheng Kwong Cheong	2	372,838,000	38.92%
Ms. Cheng Wai Ying	2	372,838,000	38.92%
Ms. Tsang Sui Tuen	3	372,838,000	38.92%
Ms. Wan Kam Ping	4	372,838,000	38.92%
Mr. Cheng Yau Kuen	5	372,838,000	38.92%
Penta Investment Advisers Ltd	6	66,460,000	6.94%
Mr. John Zwaanstra	6	66,460,000	6.94%
Mr. Michael William Moore	6	66,460,000	6.94%

Notes:

1. PME Investments is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.
2. Each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying personally holds 54,400,000 shares of the Company, being approximately 5.68% of the entire issued share capital of the Company. Each of them is further beneficially interested in one-third of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.
3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interest in 372,838,000 shares of the Company that Mr. Cheng Kwok Woo has interest in.

## **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)**

Notes: (continued)

4. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interest in 372,838,000 shares of the Company that Mr. Cheng Kwong Cheong has interest in.
5. Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interest in 372,838,000 shares of the Company that Ms. Cheng Wai Ying has interest in.
6. Each of Messrs. John Zwaanstra and Michael William Moore holds 50% interest of Penta Investment Advisers Ltd and is accordingly deemed to be interested in the 66,460,000 shares held by Penta Investment Advisers Ltd.

Saved as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in shares or underlying shares of the Company as at 30 June 2005.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SHARES**

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Period.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 18 October 2005 to 20 October 2005, both days inclusive, during which no transfer of shares can be registered. To qualify for the interim dividend, members must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Secretaries Limited, at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 17 October 2005.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, except for the following deviations:

### Code Provision A.1.7

There is no procedure agreed by the Board to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the expenses of the Company. A proper procedure will be agreed by the Board before the end of 2005 to comply with Code Provision A.1.7.

### Code Provision A.4.1

The non-executive directors of the Company are not appointed for a specific term. All non-executive directors of the Company are now appointed for a specific term, and subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

### Code Provision A.4.2

Pursuant to Article 87(1) of the Company's Articles of Association, the Chairman of the Board is not required to retire by rotation. The Chairman of the Board has decided to retire voluntarily at least once every three years in order to comply with Code Provision A.4.2.

### Code Provision A.5.4

The Company has not established written guidelines for relevant employees in respect of their dealings in the securities of the Company. The relevant written guidelines will be established in the second-half of 2005.

### Code Provision B.1.1

The Company has established a Remuneration Committee in April 2005. The majority members of the committee are independent non-executive directors. The specific written terms of reference of the Remuneration Committee were approved by the Board in July 2005.

### Code Provision C.3.3

The terms of reference of the Audit Committee have been revised and approved by the Board in July 2005 for full compliance with Code Provision C.3.3.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. All directors have complied with the required standard set out in the Model Code throughout the period covered by this interim report.

## AUDIT COMMITTEE REVIEW

The Company has established an Audit Committee, which includes three independent non-executive directors of the Company.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2005.

## BOARD OF DIRECTORS

As at the date of this report, the Board comprises (1) Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong, Ms Cheng Wai Ying, Mr. Chow Yin Kwang and Ms. Chan Yim Fan as executive directors; (2) Mr. Zheng Jin Hong as non-executive director; and (3) Messrs Anthony Francis Martin Conway, Leung Yuen Wing and Lam Hon Ming Edward as independent non-executive directors.

On behalf of the Board  
**Cheng Kwong Cheong**  
*Vice-Chairman & CEO*

Hong Kong, 23 September 2005