enewmedia

e-New Media Company Limited

interim report

2004

The Board of Directors (the "Board") of e-New Media Company Limited (the "Company") herein presents the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004, together with the unaudited comparative amounts for the corresponding period in 2003.

This interim financial report has not been audited, but has been reviewed by the Company's audit committee and the Company's auditors.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004 - unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Notes	**2004**	2003
		$'000	*$'000*
Turnover	2	**104,987**	54,519
Cost of sales		**(41,947)**	(16,252)
Gross profit		**63,040**	38,267
Other revenue	3	**11,644**	907
Administrative and selling expenses		**(67,089)**	(33,032)
Other operating expenses, net		**(7,370)**	(7,349)
Profit/(loss) from operating activities	4	**225**	(1,207)
Finance costs	5	**(227)**	(518)
Share of profits less losses of associates		**(1,194)**	(1,973)
Loss before tax		**(1,196)**	(3,698)
Tax	6	**38**	5
Loss before minority interests		**(1,158)**	(3,693)
Minority interests		**(3,454)**	19
Net loss attributable to shareholders		**(4,612)**	(3,674)
Loss per share	7		
- Basic		**(0.28) cents**	(0.22) cents
- Diluted		**N/A**	N/A

The notes on pages 6 to 13 form part of this interim financial report.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004 - unaudited
(Expressed in Hong Kong dollars)

	Notes	At 30 June 2004		At 31 December 2003	
		$'000	**$'000**	$'000	$'000
Non-current assets					
Fixed assets	8				
- Investment properties			**3,600**		3,600
- Other property and equipment			**163,659**		170,717
			167,259		174,317
Goodwill			**8,356**		8,667
Interests in associates			**13,633**		17,153
Interests in jointly controlled entities (fully provided for)			**—**		—
Investment securities			**23,896**		23,896
Other investments			**52,135**		68,001
			265,279		292,034
Current assets					
Short term investments		**119,722**		108,821	
Inventories		**23,133**		30,341	
Trade receivables	9	**8,298**		13,474	
Prepayments, deposits and other receivables		**35,681**		34,709	
Due from associates		**3,958**		2,229	
Pledged cash deposits		**856**		47,536	
Cash and bank balances		**583,242**		587,522	
Tax recoverable		**331**		331	
		775,221		824,963	
Current liabilities					
Trade and other payables	10	**89,841**		118,136	
Interest bearing bank loans, secured		**—**		46,680	
Current portion of debentures	11	**840**		900	
Other loans, unsecured		**5,207**		5,207	
Tax payable		**5,461**		5,496	
		101,349		176,419	
Net current assets			**673,872**		648,544

Condensed consolidated balance sheet

As at 30 June 2004 - unaudited (continued)
(Expressed in Hong Kong dollars)

		At 30 June 2004		At 31 December 2003	
	Notes	***$'000***	***$'000***	*$'000*	*$'000*
Total assets less current liabilities			**939,151**		940,578
Non-current liabilities					
Debentures	11	**8,904**		9,144	
Deferred tax liabilities		**117**		117	
			9,021		9,261
Minority interests			**23,460**		20,006
			906,670		911,311
CAPITAL AND RESERVES					
Share capital	12		**16,507**		16,507
Reserves	13		**890,163**		894,804
			906,670		911,311

The notes on pages 6 to 13 form part of this interim financial report.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2004 - unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2004	2003
	Note	***$'000***	*$'000*
Total equity at 1 January		**911,311**	944,514
Net gains/(losses) not recognised in the condensed consolidated profit and loss account — exchange realignment	13	**(29)**	349
Net loss for the period attributable to shareholders	13	**(4,612)**	(3,674)
Total equity at 30 June		**906,670**	941,189

The notes on pages 6 to 13 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004 - unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	$'000	*$'000*
Net cash outflow from operating activities	**(9,532)**	(12,279)
Net cash inflow from investing activities	**52,467**	29,544
Net cash outflow from financing activities	**(47,207)**	(944)
Net increase/(decrease) in cash and cash equivalents	**(4,272)**	16,321
Effect of foreign exchange rate changes, net	**(8)**	75
Cash and cash equivalents at 1 January	**587,522**	573,576
Cash and cash equivalents at 30 June	**583,242**	589,972

The notes on pages 6 to 13 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in the preparation of this interim financial report are consistent with those used in the Group's annual financial statements for the year ended 31 December 2003.

2 TURNOVER AND SEGMENTAL INFORMATION

An analysis of the Group's revenue and results by the Group's business segments and an analysis of the Group's revenue by the Group's geographical segments are as follows:

(a) Business segments

	Group turnover Six months ended 30 June		**Contribution to profit/(loss) from operating activities Six months ended 30 June**	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
Wholesale and retail of fashion wear and accessories	**73,946**	—	**8,850**	—
Telecommunications services*	**17,703**	39,190	**4,247**	9,095
Recreational club operation	**9,223**	10,455	**(2,592)**	(5,297)
Investment and treasury	**4,115**	4,874	**(9,219)**	(4,032)
e-commerce enabling technologies	**—**	—	**—**	(34)
	104,987	54,519	**1,286**	(268)
Unallocated gains and expenses, net			**(1,061)**	(939)
			225	(1,207)

(b) Geographical segments

	Group turnover Six months ended 30 June	
	2004	2003
	$'000	*$'000*
	(Unaudited)	*(Unaudited)*
Hong Kong	**87,245**	14,029
Mainland China	**984**	1,672
Japan	**743**	499
Other Asia Pacific regions	**1,050**	1,677
Europe	**4,688**	8,638
North America	**10,274**	27,969
Others	**3**	35
	104,987	54,519

* Included in turnover from the provision of telecommunications services for the six months ended 30 June 2004 is a sum of $10,224,000 (2003: $25,572,000) received from a final transit carrier in respect of traffic revenue generated in prior years which was not recognised previously in view of the uncertainty of its collectibility.

3 OTHER REVENUE

An analysis of other revenue is as follows:

	Six months ended 30 June	
	2004	2003
	$'000	*$'000*
	(Unaudited)	*(Unaudited)*
Subleasing rental income	**3,440**	—
Management fees	**1,672**	—
Consulting services fees	**257**	513
Gain on disposal of a franchise business	**4,519**	—
Others	**1,756**	394
	11,644	907

4 PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004	2003
	$'000	*$'000*
	(Unaudited)	*(Unaudited)*
Cost of goods sold	**37,288**	2,048
Amortisation of goodwill	**311**	938
Depreciation	**4,502**	5,731
Dividend income	**(1,048)**	(3,227)
Interest income	**(3,067)**	(3,826)
Exchange (gains)/losses, net	**(2,080)**	314
(Gain)/loss on disposal of fixed assets	**(328)**	8
Net realised and unrealised loss on investments in securities	**4,965**	658

5 FINANCE COSTS

Finance costs represented interest on bank loans wholly repayable within five years.

6 TAX

No provision for Hong Kong profits tax and overseas income tax has been made in the condensed consolidated profit and loss account for the six months ended 30 June 2004 as the Company and its subsidiaries either did not generate any assessable profits for the period or had available tax losses brought forward from prior years to offset the assessable profits generated during the period (2003: Nil).

Tax included in the condensed consolidated profit and loss account represents over-provision of overseas profits tax in prior years.

No provision for deferred tax has been made in the condensed consolidated profit and loss account for the six months ended 30 June 2004 as the Company and its subsidiaries had tax losses brought forward which were sufficient to offset the taxable temporary differences as at 30 June 2004.

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of $4,612,000 (2003: $3,674,000) and the weighted average of 1,650,658,676 (2003: 1,650,658,676) ordinary shares in issue during the period.

(b) Diluted loss per share

Diluted loss per share for both periods have not been presented as there were no diluting events during these periods.

8 FIXED ASSETS

The directors are of the opinion that there have been no significant changes to the open market values of the land and buildings and investment properties since 31 December 2003.

9 TRADE RECEIVABLES

The Group maintains a defined credit policy for its trade customers and the credit terms given vary according to the business activities. The financial strengths of and the period of business with individual customers are considered in arriving at the respective credit terms. Reviews of major receivables are conducted regularly.

An aged analysis of trade receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	At 30 June 2004	At 31 December 2003
	$'000	*$'000*
	(Unaudited)	*(Audited)*
0 - 1 month	**3,426**	6,171
2 - 3 months	**873**	2,002
Over 3 months	**3,999**	5,301
	8,298	13,474

10 TRADE AND OTHER PAYABLES

All trade and other payables are due within one month or on demand.

11 DEBENTURES

Each debenture holder is entitled to be a debenture member of the Hilltop Country Club (the "Club") subject to the club rules and by-laws of the Club for so long as the debentures shall remain outstanding, and has the right to use and enjoy all the facilities of the Club free of monthly subscription. At 30 June 2004, the Group's debentures were redeemable as follows:

	At 30 June 2004	At 31 December 2003
	$'000	*$'000*
	(Unaudited)	*(Audited)*
Within one year	**840**	900
In the second year	**1,254**	954
In the third to fifth year	**7,650**	8,190
	8,904	9,144
	9,744	10,044

All redeemable debentures are non-interest bearing and may be renewed upon maturity subject to the Group's prior consent.

12 SHARE CAPITAL

	At 30 June 2004 $'000 (Unaudited)	At 31 December 2003 $'000 (Audited)
Authorised:		
100,000,000,000 (31 December 2003: 100,000,000,000) ordinary shares of $0.01 each	**1,000,000**	1,000,000
Issued and fully paid:		
1,650,658,676 (31 December 2003: 1,650,658,676) ordinary shares of $0.01 each	**16,507**	16,507

In 2002, the Company underwent a capital reorganisation scheme, details of which are set out in the note 30 on the Company's statutory financial statements for the year ended 31 December 2003.

Share options

At 30 June 2004, the outstanding share options were as follows:

Date of grant	Exercise price	Number of options outstanding at 30 June 2004
11 October 1999	$1.528	300,000
1 December 1999	$1.804	48,000
1 August 2000	$0.630	288,000
		636,000

These share options are exercisable before 29 December 2007.

At 30 June 2004, the Company had 636,000 share options outstanding under the share options scheme operated by the Company. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 636,000 additional ordinary shares of $0.01 each at a total consideration of approximately $726,000.

13 RESERVES

	Share premium account $'000 (Unaudited)	Capital redemption reserve $'000 (Unaudited)	Special reserve $'000 (Unaudited)	Exchange reserve $'000 (Unaudited)	Revaluation reserve $'000 (Unaudited)	Accumulated losses $'000 (Unaudited)	Total $'000 (Unaudited)
At 1 January 2003	1,189,721	478	808,822	1,175	—	(1,072,189)	928,007
Exchange realignment	—	—	—	349	—	—	349
Net loss for the period	—	—	—	—	—	(3,674)	(3,674)
At 30 June 2003	1,189,721	478	808,822	1,524	—	(1,075,863)	924,682
At 1 January 2004	1,189,721	478	808,822	2,008	33	(1,106,258)	894,804
Exchange realignment	—	—	—	(29)	—	—	(29)
Net loss for the period	—	—	—	—	—	(4,612)	(4,612)
At 30 June 2004	**1,189,721**	**478**	**808,822**	**1,979**	**33**	**(1,110,870)**	**890,163**

No dividend was declared or paid during the current or the prior period.

14. CONTINGENT LIABILITIES

One of the telecommunications content providers of a subsidiary issued a letter through its solicitors in March 2002 claiming damages of US$1,500,000 from that subsidiary in relation to rate changes applied by that subsidiary for services delivered by the content provider. The claimant also disputes traffic volumes generated in the past and claims to have been underpaid by at least US$2,736,125.

Management has studied the allegations raised and sought legal advice on the subsidiary's legal rights and liabilities. Upon advice, the subsidiary has sought to refute most of the allegations and has made a counterclaim of US$6,214,708 for the return of sums advanced on account to the content provider due to uncollectibles, discrepancies arising on reconciliation of traffic volumes and other related items. Management considers that it is unlikely that any loss will arise and accordingly, no provision has been made in the financial statements.

15 MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the period:

		Six months ended 30 June	
		2004	2003
		$'000	*$'000*
		(Unaudited)	*(Unaudited)*
Subleasing rental and management fee income	(i)	**2,226**	—
Consultancy fees paid to a company in which the spouse of a director of a subsidiary of the Group has controlling interest	(ii)	**708**	—
Rental expenses paid to a related company	(iii)	**914**	1,252

(i) The subleasing rental and management fee income received from an associate arose from the sublease of a shop unit and the provision of shop management services to the associate in accordance with the agreements between the Group and the associate.

(ii) The consultancy services provided to a subsidiary were charged at HK$118,000 per month in accordance with the agreement between the subsidiary and the related company.

(iii) The rental expenses paid to a company controlled by a substantial shareholder of the Company were determined by reference to relevant industry practice.

16 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

17 APPROVAL OF INTERIM FINANCIAL REPORT

The unaudited interim financial report was approved and authorised for issue by the board of directors on 20 September 2004.

INDEPENDENT REVIEW REPORT

ERNST & YOUNG
安永會計師事務所

To the Board of Directors
e-New Media Company Limited
(incorporated in Hong Kong with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 1 to 13.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

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

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

Ernst & Young
Certified Public Accountants

Hong Kong
20 September 2004

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group reported a turnover of HK$104,987,000 (2003: HK$54,519,000) and consolidated loss attributable to shareholders amounted to HK$4,612,000 (2003: HK$3,674,000) for the period ended 30 June 2004. The reported loss represented a 26% increase as compared with that of the trading result of the corresponding period in 2003.

BUSINESS REVIEW

PREMIUM FASHION - THE SWANK SHOP LIMITED ("SWANK")

Swank made marked improvements in its business and recorded positive results for the first half of 2004 due largely to improved cost control and the recovery of the retail sector in Hong Kong. Barring unexpected negative global or local developments, management believes that Swank will continue to achieve positive results through the advancement of its current business and the implementation of its expansion plans in the short and medium terms.

Swank will open multiple mono-label retail outlets bearing prestigious brand names that are consistent with Swank's image in Hong Kong in late 2004. Management believes that such expansion of the retail network will improve Swank's distribution capability and profitability. Swank is also pursuing an aggressive expansion strategy in the PRC and the first Swank retail outlet in the PRC is expected to be opened in the first half of 2005 in Shanghai.

CLUB MANAGEMENT

Shanghai

Started from July 2003, the Club has co-operated with Shanghai Landis Hospitality Management Co. Ltd., a hotel management company based in Shanghai, to turn the Club into a Spa and 4-Star hotel. Progress is on schedule as planned since the Club started its renovation in December 2003. Management expects that the Club will be re-opened by the beginning of 2005.

Hong Kong

Total revenue for the period showed slight improvement as compared with the same period last year. There has been higher demand for services at the Club Lodge, particular in the months of March and April when Hong Kong recorded a higher influx of tourists and downtown hotels experienced high occupancy rates. Restaurants and banquets business continued to be highly competitive; although as a result of higher food costs and improved banquet services, a portion of the profit margin was reduced, which management believes is a necessary outcome because of increased expectation of quality from our patrons.

BIO-MEDICAL

Cardima Inc. ("Cardima")

Listed on NASDAQ and based in California, Cardima is developing an innovative micro-catheter, Revelation Tx Microcatheter system, for treatment of atrial fibrillation (irregular heartbeat) which affects an estimated 4.5 million individuals worldwide.

In a 21 May 2004 letter, the US Food and Drug Administration ("US FDA") indicated Cardima's Revelation Tx Microcatheter with Nav Ablator Ablation System was not approvable for the second time. The US FDA stated that concerns which were indicated in its first non-approvable letter remained unresolved. The US FDA suggested Cardima to collect additional clinical trial data using a revised study design to complete the Pre-Market Application Approval.

Genovate Biotechnology Company Limited ("Genovate")

Genovate (founded in Taiwan in 1993 by Genelabs Technologies, Inc. of the USA) is a fully integrated pharmaceutical company, encompassing in its operation: new drug development and new formulation capability; clinical trials for local and international pharmaceutical companies; drug manufacturing; drug marketing and distribution in Taiwan.

Genovate has a range of new drug products in the pipeline. The newly developed drug "Prestara", co-developed by Genelabs Technologies and Genovate for treatment of lupus, received an approvable letter from the US FDA in August 2002. Subject to successful completion of an undergoing confirmatory clinical trial, the market launch of the product is expected to be in 2005. "Genetaxyl" is an improved version of Paclitaxel (BMS' Taxol) developed by Genovate for treatment of breast cancer. The drug has been launched in Taiwan and market response is favorable. In addition, two drug products have obtained license in early 2004 and launched in Taiwan: "Urotrol", a new drug for treatment of urinary incontinence; and "Glusafe", for the treatment of diabetes.

TELECOMMUNICATIONS

International Premium Rate Services

In the first half of 2004, management continued to focus on opening up new markets for traditional audio-text business. Management was able to secure a number of ventures with favourable potential and anticipates that business volume will increase in a controlled manner in the second half of the year. In addition, management will continue to seek new opportunities in the market with an aim to diverse the existing portfolio of the Group.

The Group continued its success in recovering outstanding and overdue payments from transit carriers. A sum of US$1.3million was collected in June 2004. Negotiations with other transit carriers are still on-going and the Group will continue its efforts in this direction.

Wireless Network Card Business

The distribution and marketing of CDMA1X network card business in cooperation with China Unicom is growing steadily in the Shanghai market. The Group continues to look for opportunities to promote other telecommunication products with telecom operators under the similar cooperation model with China Unicom.

OTHER INVESTMENTS

ChinaPay.com Holdings Limited ("ChinaPay")

ChinaPay's main business is providing B2C electronic payment and Intra-bank fund transfer solution services in PRC through its Joint Venture, ChinaPay e-Payment Service Company Limited ("ChinaPay e-Payment"), with China UnionPay. In June 2004, ChinaPay entered into a Capital Increase Agreement of ChinaPay e-Payment with China UnionPay and 上海卡友信息服務有限公司 and ChinaPay's shares in ChinaPay e-Payment has been reduced from 49% to 40%.

On 6 August 2004, ChinaPay e-Payment together with Industrial Bank Company Ltd. and six fund management companies publicly announced the completion and launch of the Online Open-end Mutual Fund Transaction System and the debut of Online Open-end Mutual Fund Supermarket business through the System. ChinaPay e-Payment is now planning to increase the number of contracted fund companies from the current 6 to 20 and enlarge the fund products pool to a total of 50 by the end of 2004.

Beijing Smartdot Technologies Co. Ltd. ("Smartdot")

Smartdot is engaged in software development and solution projects in China and its primary focus is in the area of e-government projects and office automation. Though Smartdot did not perform as expected during the reporting period due to the macro-economic control in China in term of revenue, the profit margin has however improved gradually when compared with the same period of last year.

LIQUIDITY AND FINANCIAL POSITION

At 30 June 2004, the Group was in a solid financial position with a cash and deposit holdings of HK$584,098,000 (31 December 2003: HK$635,058,000). At 30 June 2004, total borrowings stood at HK$14,951,000 (31 December 2003: HK$61,931,000) with HK$6,047,000 (31 December 2003: HK$52,787,000) repayment falling due within one year. The Group's gearing ratio (a comparison of total borrowings with total equity) was 1.6% at the interim period end date (31 December 2003: 6.8%). The current ratio at 30 June 2004 was 7.7 times (31 December 2003: 4.7 times).

At 30 June 2004, the Group's borrowings and bank balances were primarily denominated in Hong Kong dollars and United States dollars and exchange differences were reflected in the interim financial report. All borrowings of the Group are either interest free or on a floating rate basis. During the period, the bank loans of HK$46,680,000 (US$6,000,000) was repaid in full from its internal resources. Accordingly, pledges of the Company's fixed deposits given to secure such bank loans have been reduced by an equivalent amount.

The Group's imported purchases are mainly denominated in Euros and United States dollars. The Group will from time to time review its foreign exchange position, when it considers appropriate, will hedge its foreign exchange exposure by way of forward foreign exchange contract.

PLEDGE OF ASSETS

Pledges of the Group's fixed deposits of US$110,000 (31 December 2003: US$6,110,000) was given to bankers to secure general banking facilities to the extent of US$110,000 as at 30 June 2004 (31 December 2003: US$6,110,000).

EMPLOYEE AND REMUNERATION POLICIES

At the date of this report, the Group employs a total of 274 full time staff with its main workforce stationed in the Group's offices in Hong Kong. The Group's remuneration policies are performance based and are in line with the salary trends in the respective locations. The Group provides employee benefits such as staff insurance schemes, provident and pension funds, discretionary performance bonus, external training support, and a performance based share option scheme.

CONNECTED TRANSACTIONS

On 26 August 2004, the Company entered into the Surrender Agreement with Hollywood Palace Company Limited (the "Landlord"), a company controlled by a controlling shareholder, to terminate a tenancy agreement dated 28 May 2003 (the "Old Tenancy Agreement"). On the same day, a new tenancy agreement (the "New Tenancy Agreement") was entered into between the same parties in respect of the letting of certain premises under the Old Tenancy Agreement for a period of eight months commencing 1 September 2004 with the monthly rent reduced from HK$157,948 under the Old Tenancy Agreement to HK$113,260 as a result of a reduction in rental areas from 11,282 square feet to 8,090 square feet under the New Tenancy Agreement.

AUDIT COMMITTEE

The Group's Audit Committee comprises three Independent Non-executive Directors and continues to exercise its authority to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the interim financial report for the six months ended 30 June 2004 with the Management and recommended its adoption by the Board.

DIRECTORS' INTERESTS AND SHORT POSITIONS, UNDERLYING SHARES AND DEBENTURES

At 30 June 2004, the interests and short positions of the directors in the share capital of the Company or 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 by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long position in ordinary shares of the Company:

	Corporate interests	**Percentageof total issued shares**
Joseph Wing Kong LEUNG	200,000	0.012%

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share option scheme

In an Extraordinary General Meeting of the Company held on 14 June 2002, the shareholders of the Company formally approved the termination of the share option scheme adopted on 30 December 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"), in compliance with the amended Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. A summary of the principal terms of the New Scheme was sent to the shareholders of the Company in a circular dated 28 May 2002. All new options shall be granted under the terms and conditions of the New Scheme. No options have yet been granted under the New Scheme.

All outstanding options granted under the Old Scheme shall remain valid and exercisable under the provisions of the Old Scheme.

Details of the outstanding share options as at 30 June 2004 were as follows:

	Number of options outstanding at the beginning of the period	Number of options lapsed during the period	Number of options outstanding at the period end	Date granted	Price per share on exercise of options
Granted under the Old Scheme:					
Employees	1,320,000	684,000	636,000	11 October 1999 to 1 August 2000	HK$0.63 to HK$1.804

Share options under the Old Scheme are exercisable before 29 December 2007.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

At 30 June 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

	Ordinary shares of HK$0.01 each			
Substantial shareholders	**Direct interests**	**Indirect interests**	**Total number of ordinary shares held**	**Percentage of total issued shares**
Diamond Leaf Limited	162,884,503	—	162,884,503	9.8%
Solution Bridge Limited	408,757,642	—	408,757,642	24.8%
Ms Nina KUNG *(Note)*	—	571,642,145	571,642,145	34.6%

Note: The interests disclosed under Ms Nina KUNG represent her deemed interests in the shares of the Company by virtue of her interests in Diamond Leaf Limited and Solution Bridge Limited.

Save as disclosed above, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors are aware of any information that would reasonably indicate that the Company is not or was not for any part of the six months ended 30 June 2004 in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules except that Independent Non-executive Directors are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Mode Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (as may be amended from time to time by the Stock Exchange pursuant to the Listing Rules) as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company.

After having made specific enquiry of all Directors, the Directors complied with the required standard set out in the Model Code during the six months ended 30 June 2004.

By order of the Board
James C. Ng
Chief Executive Officer

Hong Kong, 20 September 2004