

e-KONG Group Limited

Interim Report 2004



Looking ahead



Corporate Information

Board of Directors

Executive Directors

Mr. Richard John Siemens (*Chairman*)

Mr. Kuldeep Saran (*Deputy Chairman*)

Mr. Lim Shyang Guey

Non-executive Director

Mr. William Bruce Hicks

Independent Non-executive Directors

Mr. Shane Frederick Weir

Mr. Matthew Brian Rosenberg

Company Secretary

Mr. Lau Wai Ming Raymond

Auditors

Moore Rowland Mazars

Chartered Accountants

Certified Public Accountants

Legal Advisers

Deacons

Angela Wang & Co.

Conyers Dill & Pearman

Bankers

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

DBS Bank Limited

FirstService Bank a division of National Penn Bank

Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal Office

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Stock Codes

Hong Kong Stock Exchange: 524

Ticker Symbol for ADR: EKONY

CUSIP Reference Number: 26856N109

Website Address

www.e-kong.com

Share Registrar

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Hong Kong Branch Share Registrar

Secretaries Limited

G/F Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

ADR Depositary

The Bank of New York

American Depositary Receipts

101 Barclay Street, 22nd Floor

New York, NY 10286

USA

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Condensed Consolidated Income Statement

The board of directors (the “Board”) of e-Kong Group Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2004, together with comparative figures for the corresponding period in 2003. The results are unaudited but have been reviewed by the Company’s Audit Committee and the Company’s auditors.

	<i>Note</i>	Six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	201,456	201,173
Cost of sales		(126,754)	(116,306)
Gross profit		74,702	84,867
Other revenue	3	474	248
		75,176	85,115
Distribution costs		(20,235)	(20,048)
Business promotion and marketing expenses		(3,434)	(3,025)
Operating and administrative expenses		(43,707)	(48,106)
Depreciation and amortisation		(25,508)	(22,538)
Loss from operations	4	(17,708)	(8,602)
Finance costs		(22)	(111)
Gain on disposal of discontinued operation		—	382
Loss from ordinary activities before taxation		(17,730)	(8,331)
Taxation	5	—	—
Loss from ordinary activities after taxation		(17,730)	(8,331)
Minority interests		30	—
Net loss attributable to shareholders		(17,700)	(8,331)
		HK\$	HK\$
Loss per share	6		
Basic		(0.04)	(0.02)
Diluted		N/A	N/A
		HK\$'000	HK\$'000
EBITDA	7	7,800	14,318

Condensed Consolidated Balance Sheet

		As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
	Note		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	126,459	149,698
Investment securities		3,452	3,452
Deferred tax assets		1,000	1,000
		<u>130,911</u>	<u>154,150</u>
Current assets			
Trade and other receivables	9	51,858	47,489
Pledged deposits		3,153	3,305
Bank balances and cash		34,307	30,872
		<u>89,318</u>	<u>81,666</u>
Current liabilities			
Trade and other payables	10	60,856	58,601
Current portion of obligations under finance leases		300	289
		<u>61,156</u>	<u>58,890</u>
Net current assets		<u>28,162</u>	<u>22,776</u>
Total assets less current liabilities		159,073	176,926
Long-term liabilities			
Obligations under finance leases		159	312
NET ASSETS		<u>158,914</u>	<u>176,614</u>
CAPITAL AND RESERVES			
Issued capital		4,709	4,709
Reserves		154,205	171,905
		<u>158,914</u>	<u>176,614</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2004

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
As at 1 January 2003	4,709	23,461	6	607,462	(439,268)	196,370
Net loss attributable to shareholders	—	—	—	—	(19,756)	(19,756)
As at 31 December 2003	4,709	23,461	6	607,462	(459,024)	176,614
Net loss attributable to shareholders	—	—	—	—	(17,700)	(17,700)
As at 30 June 2004	4,709	23,461	6	607,462	(476,724)	158,914

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	5,664	2,084
Net cash used in investing activities	(2,269)	(2,190)
Net cash used in financing activities	(112)	(3,614)
Net increase / (decrease) in cash and cash equivalents	3,283	(3,720)
Cash and cash equivalents as at 1 January	34,177	38,886
Cash and cash equivalents as at 30 June	37,460	35,166
Analysis of the balances of cash and cash equivalents		
Pledged deposits	3,153	5,246
Bank balances and cash	34,307	29,920
	37,460	35,166

Notes to the Condensed Financial Statements

For the six months ended 30 June 2004

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements are unaudited and have been prepared in accordance with the Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements under Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. TURNOVER AND SEGMENTAL INFORMATION

The analysis of the Group’s turnover and results by business segments and geographical segments during the period is as follows:

(a) *by business segments:*

	Six months ended 30 June					
	2004			2003		
	Telecom- munication services (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000	Telecom- munication services (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover						
External sales	201,240	216	201,456	198,006	3,167	201,173
Result						
Loss from operations	(10,161)	(138)	(10,299)	(1,112)	(1,004)	(2,116)
Finance costs			(22)			(111)
Other operating income and expenses			(7,409)			(6,486)
Gain on disposal of discontinued operation			—			382
Loss from ordinary activities			(17,730)			(8,331)
Minority interests			30			—
Net loss attributable to shareholders			(17,700)			(8,331)

Notes to the Condensed Financial Statements (continued)

For the six months ended 30 June 2004

2. TURNOVER AND SEGMENTAL INFORMATION (continued)

(b) by geographical segments:

	Six months ended 30 June					
	2004			2003		
	North America (Unaudited) HK\$'000	Asia Pacific (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000	North America (Unaudited) HK\$'000	Asia Pacific (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover						
External sales	135,183	66,273	201,456	129,716	71,457	201,173
Result						
(Loss) / Profit from operations	(5,383)	(4,916)	(10,299)	(3,757)	1,641	(2,116)
Finance costs			(22)			(111)
Other operating income and expenses			(7,409)			(6,486)
Gain on disposal of discontinued operation			—			382
Loss from ordinary activities			(17,730)			(8,331)
Minority interests			30			—
Net loss attributable to shareholders			(17,700)			(8,331)

3. OTHER REVENUE

	Six months ended 30 June	
	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income	134	34
Others	340	214
	474	248

4. LOSS FROM OPERATIONS

This was arrived at after crediting:

	Six months ended 30 June	
	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Gain on disposal of other investments	—	12

5. TAXATION

Hong Kong Profits Tax and overseas taxation have not been provided as the Group has no assessable profit for the period (30 June 2003: Nil).

6. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2004 is based on the consolidated loss attributable to shareholders of HK\$17,700,000 (30 June 2003: HK\$8,331,000) and on the weighted average number of 470,894,200 (30 June 2003: 470,894,200) shares in issue during the period.

The fully diluted loss per share for the six months ended 30 June 2003 and 2004 are not shown because the potential shares would decrease the loss per share and would be regarded as anti-dilutive.

7. EBITDA

EBITDA represents earnings before interest expenses, taxation, depreciation and amortisation.

8. ACQUISITIONS AND DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$2.3 million (31 December 2003: HK\$6.0 million) and the disposal was approximately HK\$0.1 million (31 December 2003: HK\$45.2 million).

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Trade receivables	44,115	39,840
Other receivables		
Deposits, prepayments and other debtors	7,743	7,649
	51,858	47,489

The Group's credit terms on credit sales mainly range from 30 days to 90 days. Included in trade and other receivables are trade debtors (net of provision for bad and doubtful debts) with the following ageing analysis.

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Current	41,588	39,040
1 to 3 months	2,409	775
More than 3 months but less than 12 months	118	25
	44,115	39,840

Notes to the Condensed Financial Statements (continued)

For the six months ended 30 June 2004

10. TRADE AND OTHER PAYABLES

	As at 30 June 2004 (Unaudited) <i>HK\$'000</i>	As at 31 December 2003 (Audited) <i>HK\$'000</i>
Trade payables	29,740	24,218
Other payables		
Accrued charges and other creditors	<u>31,116</u>	<u>34,383</u>
	<u>60,856</u>	<u>58,601</u>

Included in trade and other payables are trade creditors with the following ageing analysis.

	As at 30 June 2004 (Unaudited) <i>HK\$'000</i>	As at 31 December 2003 (Audited) <i>HK\$'000</i>
Current	20,935	18,832
1 to 3 months	6,524	3,167
More than 3 months but less than 12 months	<u>2,281</u>	<u>2,219</u>
	<u>29,740</u>	<u>24,218</u>

11. COMPARATIVE FIGURES

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

Independent Review Report

Moores Rowland Mazars

摩斯倫·馬賽會計師事務所

To the Audit Committee of

e-Kong Group Limited

(incorporated in Bermuda with limited liability)

We have been instructed by the Audit Committee of the Company to review the interim financial report set out on pages 1 to 8.

Respective responsibilities of Directors, Audit Committee and Auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) 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 Society of Accountants and the relevant provisions thereof.

The interim financial report is the responsibility of, and has been approved by, the directors.

The Listing Rules require the Audit Committee to review the interim financial report.

It is our responsibility to report our conclusion, based on our review, on the interim financial report to the Audit Committee for the purpose of assisting the Audit Committee to discharge its responsibility under the Listing Rules in relation to the interim financial 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 Society of Accountants. A review consists principally of making enquiries of the Company’s management and applying analytical procedures to the interim financial report 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.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, 7 September 2004



A member of
Moores Rowland International
an association of independent
accounting firms throughout
the world

A member firm of Mazars



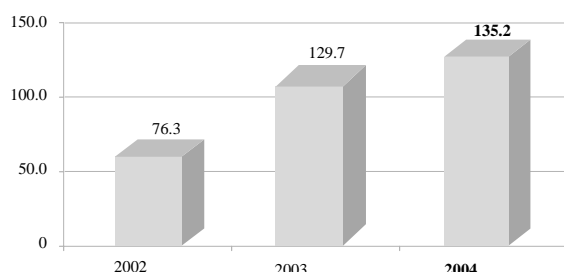
M A Z A R S

Business Review and Outlook

During the period under review, the Group focused on its telecommunications business with its operations in the United States, Hong Kong and Singapore accounting for almost the Group's entire turnover. Revenue for this period derived from the ZONE telecommunications business increased by 1.6% from HK\$198.0 million for the first six months of 2003 to HK\$201.2 million for the period under review.

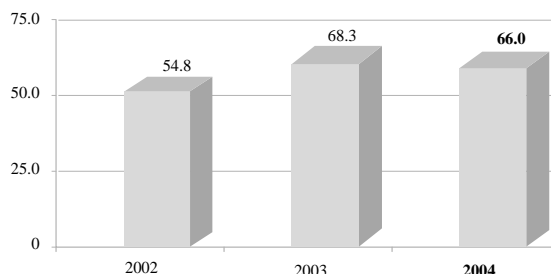
Total turnover of the Group was HK\$201.5 million compared to HK\$201.2 million for the same period in 2003. EBITDA for the Group was HK\$7.8 million for the six months ended 30 June 2004 compared to HK\$14.3 million for the prior period. Loss attributable to shareholders for the period was HK\$17.7 million compared to HK\$8.3 million for the previous corresponding period.

Turnover of ZONE US
For the six months ended 30 June
(HK\$ millions)



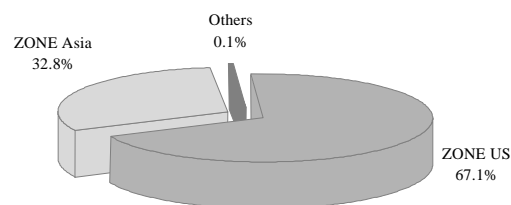
Turnover from ZONE operations in the United States ("ZONE US") increased by 4.2%, from HK\$129.7 million for the prior period to HK\$135.2 million. While ZONE US experienced growth in the corporate segment, the residential market segment continued to be affected by intense competition particularly from the major incumbent operators that are offering attractive bundled local and long distance services. ZONE US accounted for 67.1% of the total Group turnover for this period, compared to 64.5% for the previous corresponding period.

Turnover of ZONE Asia
For the six months ended 30 June
(HK\$ millions)



Turnover from ZONE Hong Kong and ZONE Singapore (collectively "ZONE Asia") for this period was HK\$66.0 million compared to HK\$68.3 million for the prior period. The operating environment remains very price sensitive, particularly in Hong Kong. Intense competition continues to trim operating margins and also increase in churn.

% Turnover Contribution



During this period, the Group pushed ahead with some of its strategic initiatives in pursuing expansion opportunities to complementary services. The Group is currently evaluating various technologies for deploying IP centric services and has also launched in Hong Kong an IP-based pilot programme to assess the marketing, operational and cross-boundary issues of providing those services internationally. Discussions are also in progress with potential strategic partners.

Looking ahead for the next period, the Group's existing business is likely to face ongoing competitive pressures and the market conditions are anticipated to remain challenging. The IP-related initiatives are not scheduled to be introduced until the end of the year. A modest revenue growth is expected from its existing business. The Group will continue to focus on enhancing financial and operational efficiencies.

Financial Review

Results

The Group's turnover for the period under review increased by HK\$0.3 million to HK\$201.5 million compared to HK\$201.2 million for the corresponding period in 2003.

The gross profit for this period was HK\$74.7 million compared to HK\$84.9 million for the corresponding period in the previous year.

The gross profit for the period ended 30 June 2003 took into account an amount of HK\$8.2 million which was the provision for rebate of Universal Services Contributions ("USC") from PCCW — HKT Telephone Limited. The amount was offset against the cost of sales of the Group in 2003.

The gross profit for the period as a percentage of total turnover was 37.1% compared to 42.2% (or 38.1% if excluding the provision for rebate of USC) for the period ended 30 June 2003.

The Group's EBITDA for the period under review was HK\$7.8 million compared to HK\$14.3 million for the prior period.

The operating loss for the period was HK\$17.7 million compared to HK\$8.6 million for the previous corresponding period.

Consolidated net loss attributable to shareholders was HK\$17.7 million compared to HK\$8.3 million for the previous corresponding period.

Interim dividend

The Board did not recommend payment of any interim dividend for the six months ended 30 June 2004 (30 June 2003: Nil).

Liquidity and financing

The Group relied on its internal resources to fund its operations during the period.

Bank balances and cash (excluding pledged deposits) were HK\$34.3 million as at 30 June 2004 (31 December 2003: HK\$30.9 million). The Group had pledged deposits amounting to HK\$3.2 million as at 30 June 2004 (31 December 2003: HK\$3.3 million). The Group had no bank borrowings during the period under review.

As at 30 June 2004, the Group's liabilities under equipment lease financing amounted to HK\$0.5 million (31 December 2003: HK\$0.6 million).

As at 30 June 2004, the net assets of the Group amounted to HK\$158.9 million (31 December 2003: HK\$176.6 million). The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets, was 0.3% (31 December 2003: 0.3%).

Foreign exchange exposure

Since most of the Group's assets and liabilities, revenue and payments are denominated in Hong Kong dollars or United States dollars, the Group considers that there is no significant exposure to foreign exchange fluctuations so long as the Hong Kong-United States dollar exchange rate remains pegged.

Contingent liabilities

As at 30 June 2004, there were no material contingent liabilities.

Save as aforesaid, the directors are not aware of any other material changes from information disclosed in the 2003 annual report.

Additional Information

Directors' interests in securities

As at 30 June 2004, the directors and chief executive of the Company and their respective associates had the following interests and short positions (if any) in shares, underlying shares and debentures of the Company or any of 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 under 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 (the "Model Code"):

Name of director	Number of shares of HK\$0.01 each held			Percentage of issued share capital
	Personal interests	Corporate interests	Total interests	
Mr. Richard John Siemens	—	100,631,627 (Note 1)	100,631,627	21.4%
Mr. William Bruce Hicks	2,319,914	67,962,428 (Note 2)	70,282,342	14.9%
Mr. Kuldeep Saran	341,200	67,632,428 (Note 3)	67,973,628	14.4%
Mr. Shane Frederick Weir	10,000	—	10,000	0.0%

Notes:

- 2,400,000 shares are beneficially owned by Siemens Enterprises Limited, a company controlled by Mr. Richard John Siemens. 98,231,627 shares are beneficially owned by Goldstone Trading Limited, a company controlled by Mr. Siemens.
- 67,962,428 shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.
- 67,632,428 shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Kuldeep Saran.

All the interests disclosed above represent long position in the shares of the Company and there were no underlying shares held by the directors as at 30 June 2004.

Save as disclosed above, as at 30 June 2004, none of the directors or chief executive of the Company or their respective associates had any interests or short positions in any 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 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.

Arrangement to enable directors to acquire shares or debentures

Apart from the share option schemes that are adopted or may be adopted by the Company or any of its subsidiaries and referred to in the paragraph below

titled "Share option schemes", at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable any director or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors or chief executive of the Company nor any of their spouses or children under the age of 18 had any interest in, or had been granted, any right to subscribe for shares in or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such right during the period.

Substantial shareholders

As at 30 June 2004, the following persons, other than the directors or chief executive of the Company, had interests and short positions (if any) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Number of shares held	Percentage of interest
Goldstone Trading Limited	98,231,627*	20.9%
Great Wall Holdings Limited	67,962,428*	14.4%
Future (Holdings) Limited	67,632,428*	14.4%

* The interests herein disclosed represent the same interests as the corporate interests of Mr. Richard John Siemens (being held through Goldstone Trading Limited), Mr. William Bruce Hicks and Mr. Kuldeep Saran as disclosed in the notes to the description under the heading of “Directors’ interests in securities” above.

All interests disclosed above represent long position in the shares of the Company.

Save as disclosed above, the Company has not been notified of any other persons (other than the directors or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 30 June 2004.

Share options schemes

The Company

Pursuant to the employee share option scheme of the Company (the “Old Share Option Scheme”) adopted in a special general meeting held on 25 October 1999, the directors of the Company might, at their discretion, invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions stipulated therein. The Old Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 28 June 2002 but the share options granted but not yet exercised thereunder would remain effective and are bound by terms therein.

On 28 June 2002, the Company adopted a new share option scheme (the “New Share Option Scheme”) to comply with the modified requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”). Under the New Share Option Scheme, the directors of the Company might at its discretion grant share options to (i) any director, employee, consultant, customer, supplier,

business introduction agent, or legal, financial or marketing adviser of or contractor to any company in the Group or any affiliate; and/or (ii) any discretionary trust the discretionary objects of which include any of the foregoing, under the terms and conditions stipulated therein. No share options have ever been granted by the Company under the New Share Option Scheme since adoption.

Subsidiaries of the Company

On 28 June 2002, the Company adopted a set of rules and procedures for share option schemes for its subsidiaries (the “Scheme Rules and Procedures”) to comply with the modified requirements of Chapter 17 of the Listing Rules. Pursuant to the Scheme Rules and Procedures, the subsidiaries might adopt their respective share options schemes in terms and conditions of the Scheme Rules and Procedures, under which the board of directors of each of the relevant subsidiaries might at its discretion grant their respective share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to the subsidiaries and their subsidiaries, any of their holding companies or any affiliate; and/or (ii) any discretionary trust the discretionary objects of which include any of the foregoing. No subsidiaries have ever adopted any share option schemes pursuant to the terms and conditions of the Scheme Rules and Procedures since adoption.

During the period, no share options were held by the directors, chief executive or substantial shareholders of the Company, or suppliers of goods or services or other participants other than eligible employees under the Old Share Option Scheme.

Additional Information (continued)

Details of the share options granted to eligible employees under the Old Share Option Scheme and remained outstanding as at 30 June 2004 were as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options		
			As at 1 January 2004	Lapsed during the period	As at 30 June 2004
25.10.1999	25.10.2000 - 24.10.2009	1.40	1,065,000	(1,050,000)	15,000
16.11.1999	16.11.2000 - 24.10.2009	1.60	7,500	–	7,500
23.12.1999	23.12.2000 - 24.10.2009	2.00	370,000	–	370,000
03.01.2000	03.01.2001 - 24.10.2009	2.30	300,000	(300,000)	–
24.01.2000	21.02.2000 - 24.10.2009	2.30	450,000	(450,000)	–
25.01.2000	01.03.2000 - 24.10.2009	2.30	150,000	(150,000)	–
03.03.2000	03.04.2000 - 24.10.2009	7.60	1,140,000	(1,140,000)	–
03.03.2000	03.03.2001 - 24.10.2009	7.60	15,000	–	15,000
28.04.2000	28.04.2001 - 24.10.2009	3.30	476,500	(325,000)	151,500
09.08.2000	09.08.2001 - 24.10.2009	2.30	30,000	–	30,000
25.10.2000	25.10.2001 - 24.10.2009	1.20	30,000	–	30,000
Total			4,034,000	(3,415,000)	619,000

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, throughout the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, save that the non-executive directors of the Company are not appointed for fixed terms, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

Audit committee

The Audit Committee has reviewed with the management and the auditors of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited consolidated financial results for the six months ended 30 June 2004.

Purchase, sale or redemption of the Company's listed securities

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

Employee remuneration policies

As at 30 June 2004, the Group employed 187 employees (31 December 2003: 186 employees) in Hong Kong and overseas.

The Group's remuneration policies are formulated on the basis of the performance and experience of individual employee and are in line with local market practices where the Group operates. The Group has established incentive bonus schemes to motivate and reward employees at all levels to achieve the Group's objectives. In addition to salary and bonus payment, the Group also offers to its employees other fringe benefits including provident fund and medical benefits. Furthermore, pursuant to the share option schemes adopted by the Company, share options may be granted to eligible employees of the Group to subscribe for shares in the Company under the terms and conditions stipulated therein.

Appreciation

The Board would like to thank the customers, shareholders, business associates and professional advisers for their support and extend its appreciation to all employees for their hard work, dedication and commitment to the Group.

By Order of the Board
Lau Wai Ming Raymond
Company Secretary

7 September 2004