

FONG'S[®]

FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)



Interim Report 2004

The board of directors (the “Board”) of Fong’s Industries Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended June 30, 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2004 – unaudited

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover		763,736	666,780
Cost of sales		(513,705)	(405,797)
Gross profit		250,031	260,983
Other revenue		12,449	7,511
Distribution costs		(30,564)	(24,814)
Administrative expenses		(83,968)	(77,988)
Other operating expenses		(18,399)	(25,107)
Profit from operations		129,549	140,585
Finance costs	5	(4,334)	(3,416)
Interest income		646	708
Share of results of associates		694	1,032
Share of results of a jointly controlled entity		13,142	27,128
Profit before tax		139,697	166,037
Income tax expense	6	(20,961)	(26,280)
Profit before minority interests		118,736	139,757
Minority interests		(148)	772
Net profit for the period		118,588	140,529
Earnings per share	7		
Basic		21.10 cents	24.96 cents
Diluted		21.10 cents	24.96 cents
Dividends per share	8		
Interim		7.0 cents	9.0 cents
Special		3.0 cents	3.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET*As at June 30, 2004 – unaudited*

	<i>Notes</i>	As at June 30, 2004 unaudited HK\$'000	As at December 31, 2003 audited HK\$'000
Non-current assets			
Property, plant and equipment		260,364	257,222
Goodwill		1,487	2,974
Interest in associates		31,842	31,342
Interest in a jointly controlled entity	10	52,677	56,200
Deferred tax assets		2,429	2,945
		348,799	350,683
Current assets			
Inventories		446,925	265,384
Trade and other receivables	11	187,110	124,488
Amount due from a jointly controlled entity		–	980
Tax recoverable		4,589	4,589
Bank balances, deposits and cash		202,435	217,209
		841,059	612,650
Current liabilities			
Trade and other payables	12	159,700	162,905
Amount due to a jointly controlled entity		6,406	–
Bills payable		9,878	24,237
Warranty provision		6,604	6,300
Tax liabilities		21,471	6,227
Obligations under finance leases			
– due within one year		2,112	2,232
Bank borrowings – due within one year		251,416	38,257
		457,587	240,158
Net current assets		383,472	372,492
		732,271	723,175

CONDENSED CONSOLIDATED BALANCE SHEET*As at June 30, 2004 – unaudited (Continued)*

	<i>Notes</i>	As at June 30, 2004 unaudited HK\$'000	As at December 31, 2003 audited HK\$'000
Capital and reserves			
Share capital	13	56,038	56,300
Reserves	14	672,954	661,644
		728,992	717,944
Minority interests		1,759	1,611
Non-current liabilities			
Obligations under finance leases			
– due after one year		525	1,518
Deferred tax liabilities		995	2,102
		1,520	3,620
		732,271	723,175

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended June 30, 2004 – unaudited*

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Balance at January 1	717,944	580,227
Exchange difference arising on translation of overseas subsidiaries not recognised in the condensed consolidated income statement	(237)	1,515
Net profit for the period	118,588	140,529
Repurchase of shares	(17,624)	-
Dividends paid	(89,679)	(73,190)
Balance at June 30	728,992	649,081

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended June 30, 2004 – unaudited*

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net cash (used in) generated from operating activities	(115,921)	118,023
Net cash generated from (used in) investing activities	916	(9,593)
Net cash generated from (used in) financing activities	100,407	(74,148)
Net (decrease) increase in cash and cash equivalents	(14,598)	34,282
Cash and cash equivalents at beginning of the period	217,209	216,051
Effect of foreign exchange rate changes	(176)	1,391
Cash and cash equivalents at end of the period representing bank balances, deposits and cash	202,435	251,724

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies, manufacture and sale of stainless steel casting products and property holding. There was no change in the principal activities of the Group during the period.

2. **Accounting policies**

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

The accounting policies adopted in the condensed financial statements are consistent with those followed in the Annual Report 2003.

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

3. Business and geographical segments

The analysis of the business segments (the primary reporting format) and geographical segments of the operation of the Group during the period are as follows:

Business segments

	Manufacture and sale of dyeing and finishing machines HK\$'000	Trading of stainless steel supplies HK\$'000	Manufacture and sale of stainless steel casting products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended June 30, 2004 (unaudited)					
Revenue					
External sales	396,446	316,273	51,017	-	763,736
Inter-segment sales	6,945	107,951	7,525	(122,421)	-
Total revenue	403,391	424,224	58,542	(122,421)	763,736

Inter-segment sales are charged at terms agreed between relevant parties

Results

Segment results	80,388	42,855	6,306		129,549
Finance costs					(4,334)
Interest income					646
Share of results of associates					694
Share of results of a jointly controlled entity	13,142				13,142
Profit before tax					139,697
Income tax expense					(20,961)
Minority interests					(148)
Net profit for the period					118,588

Other information

Depreciation and amortisation	12,375	413	2,078		14,866
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3. Business and geographical segments (Continued)

Business segments (Continued)

	Manufacture and sale of dyeing and finishing machines <i>HK\$'000</i>	Trading of stainless steel supplies <i>HK\$'000</i>	Manufacture and sale of stainless steel casting products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended June 30, 2003 (unaudited)					
Revenue					
External sales	477,778	158,676	30,326	-	666,780
Inter-segment sales	5,883	75,509	11,966	(93,358)	-
Total revenue	<u>483,661</u>	<u>234,185</u>	<u>42,292</u>	<u>(93,358)</u>	<u>666,780</u>
Inter-segment sales are charged at terms agreed between relevant parties					
Results					
Segment results	<u>118,253</u>	<u>9,581</u>	<u>12,751</u>		140,585
Finance costs					(3,416)
Interest income					708
Share of results of associates					1,032
Share of results of a jointly controlled entity	27,128				<u>27,128</u>
Profit before tax					166,037
Income tax expense					(26,280)
Minority interests					<u>772</u>
Net profit for the period					<u>140,529</u>
Other information					
Depreciation and amortisation	<u>10,628</u>	<u>352</u>	<u>2,030</u>		<u>13,010</u>

3. Business and geographical segments (Continued)

Geographical segments

	Revenue by geographical market for the six months ended June 30,	
	2004 unaudited HK\$'000	2003 unaudited HK\$'000
Hong Kong	292,550	237,455
The People's Republic of China	254,140	317,519
Asia Pacific	130,658	62,384
Europe	54,210	35,986
South & North America	25,329	11,538
Other	6,849	1,898
	763,736	666,780

4. Depreciation and amortisation

During the period, depreciation of approximately HK\$13,379,000 (2003: HK\$11,348,000) was charged in respect of the Group's property, plant and equipment and amortisation of approximately HK\$1,487,000 (2003: HK\$1,662,000) was charged in respect of the Group's intangible assets and goodwill.

5. Finance costs

	For the six months ended June 30,	
	2004 unaudited HK\$'000	2003 unaudited HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	2,003	1,308
Obligations under finance leases	63	141
Bank charges	2,083	1,878
Factoring charges	185	89
	4,334	3,416

6. Income tax expense

	For the six months ended June 30,	
	2004 unaudited HK\$'000	2003 unaudited HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current period	16,793	14,670
Under provision in prior years	-	147
Overseas taxation		
Current period	2,909	8,148
Over provision in prior years	(8)	(136)
Deferred tax credit	(591)	(946)
Share of income tax attributable to associates	194	254
Share of income tax attributable to a jointly controlled entity	1,664	4,143
	20,961	26,280

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

7. Earnings per share

The calculation of basic and diluted earnings per share is based on the net profit for the period of approximately HK\$118,588,000 (2003: HK\$140,529,000) and the following data:

	For the six months ended June 30,	
	2004 unaudited <i>Number of Shares</i>	2003 unaudited <i>Number of Shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	562,086,384	562,996,285
Weighted average number of ordinary shares for the purpose of diluted earnings per share	562,086,384	562,996,285

There were no dilutive potential ordinary shares outstanding for the six months ended June 30, 2004 and 2003.

8. Dividends

	For the six months ended June 30,	
	2004 unaudited <i>HK\$'000</i>	2003 unaudited <i>HK\$'000</i>
Interim dividend of 7.0 cents (2003: 9.0 cents) per share	39,227	50,670
Special dividend of 3.0 cents (2003: 3.0 cents) per share	16,811	16,890

9. Additions to property, plant and equipment

During the period, the total cost of additions to property, plant and equipment of the Group was approximately HK\$15,299,000 (2003: HK\$10,378,000).

10. Interest in a jointly controlled entity

	As at June 30, 2004 unaudited HK\$'000	As at December 31, 2003 audited HK\$'000
Share of net assets	52,677	56,200

11. Trade and other receivables

Except for retention money held by customers for sales of dyeing and finishing machines, the Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables:

	As at June 30, 2004 unaudited HK\$'000	As at December 31, 2003 audited HK\$'000
0-30 days	113,638	62,937
31-60 days	696	3,652
Over 60 days	2,336	1,011
	116,670	67,600

12. Trade and other payables

The following is an aged analysis of trade payables:

	As at June 30, 2004 unaudited HK\$'000	As at December 31, 2003 audited HK\$'000
0-30 days	49,070	53,248
31-60 days	2,864	9,289
Over 60 days	2,866	1,981
	54,800	64,518

13. Share capital

	As at June 30, 2004 unaudited HK\$'000	As at December 31, 2003 audited HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid: At beginning of the year, 562,996,285 (2003: 562,996,285) ordinary shares of HK\$0.10 each	56,300	56,300
Repurchase of shares	(262)	-
At end of the period/year, 560,378,285 (2003: 562,996,285) ordinary shares of HK\$0.10 each	56,038	56,300

14. Movement of reserve

The Group

	Share premium	Dividend reserve	Capital redemption reserve	Translation reserve	Retained profits	Contributed surplus	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2004	216,088	90,079	1,215	(12,928)	341,608	25,582	661,644
Premium on repurchase of shares	(17,362)						(17,362)
Transfer upon repurchase of shares			262		(262)		-
Exchange difference arising on translation of overseas subsidiaries				(237)			(237)
Net profit for the period					118,588		118,588
Dividends paid		(50,669)			225		(50,444)
Special dividend paid		(39,410)			175		(39,235)
Interim dividend		39,227			(39,227)		-
Special dividend		16,811			(16,811)		-
At June 30, 2004	198,726	56,038	1,477	(13,165)	404,296	25,582	672,954

15. Contingent liabilities

	As at June 30, 2004 unaudited HK\$'000	As at December 31, 2003 audited HK\$'000
Export bills discounted with recourse	10,833	7,874

16. Capital commitments

	As at June 30, 2004 unaudited HK\$'000	As at December 31, 2003 audited HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	4,511	11,160

17. Related party transactions

	For the six months ended June 30,	
	2004 unaudited HK\$'000	2003 unaudited HK\$'000
Management fee received (<i>Note</i>)	160	164
Rental paid (<i>Note</i>)	2,762	2,512
Transactions with the jointly controlled entity		
Sales of goods	704	1,563
Commission and management fee received	8,102	8,882
Purchase of materials	3,540	10,154

The above transactions were carried out at market price or where no market price was available, at cost.

Note: The party concerned is related to the Group since it is an enterprise in which Messrs. Fong Kwok Leung, Kevin and Fong Kwok Chung, Bill have beneficial interests. The rentals were negotiated on an arm's length basis and were determined by independent rental valuations.

18. Post balance sheet event

Subsequent to the balance sheet date, the Group entered into agreements with an independent third party on July 31, 2004 to acquire the production facilities and intellectual property rights of a German group of companies for a cash consideration of approximately HK\$54,840,000. Details of the acquisition were disclosed in the Company's circular dated August 24, 2004.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to pay an interim dividend of 7.0 cents and a special dividend of 3.0 cents (2003: an interim dividend of 9.0 cents and a special dividend of 3.0 cents) per share. The interim and special dividends will be paid on or about November 3, 2004 to those shareholders on the register of members on October 21, 2004. The register of members of the Company will be closed from October 18, 2004 to October 21, 2004, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim and special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Secretaries Limited, at the Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, October 15, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Results

For the six months ended June 30, 2004, the Group's consolidated turnover amounted to approximately HK\$763,736,000 (2003: HK\$666,780,000), representing an increase of 15% compared with the corresponding period last year. The net profit for the period under review amounted to approximately HK\$118,588,000, a decrease of 16% (2003: HK\$140,529,000). Basic earnings per share was 21.10 cents (2003: 24.96 cents).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Dyeing and Finishing Machinery Manufacturing

Fong's National Engineering Co., Ltd. and Fong's National Engineering (Shenzhen) Co., Ltd.

During the period under review, the sales of dyeing and finishing machines were directly affected by China's recent austerity measures to prevent the overheating of its economy. In particular, the tightening of bank loan credits for our local Chinese customers has significantly hampered their ability to expand. And at the same time, sales to our overseas markets have shown healthy growth but were not able to offset the difference in the China market. Consequently, the turnover of this core business of the Group for the six months ended June 30, 2004 was approximately HK\$396,446,000 (2003: HK\$477,778,000), a decrease of 17% as compared to that of the corresponding period last year.

As disclosed in the Company's circular dated August, 24, 2004, the Group has successfully acquired the production facilities and intellectual property rights of **SCHOLL-THEN**, a renowned German group of companies engaged in dyeing machine manufacturing, for a cash consideration of approximately HK\$54,840,000. Through this acquisition, the Group will be able to further advance its strategy of providing customers with the widest range of products and improves its leading position in the industry on a global basis.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Stainless Steel Trading

Fong's Steels Supplies Company Limited

During the period under review, this business segment recorded a turnover and operating profit of approximately HK\$316,273,000 (2003: HK\$158,676,000) and HK\$42,855,000 (2003: HK\$9,581,000) respectively, representing an increase of 99% and 347% respectively as compared with the corresponding period last year.

Owing to the weakening of the US dollar, a strong demand for stainless steel driven by global economic growth coupled with an imbalance between supply and demand of nickel, the major raw material for the production of stainless steels, stainless steel prices experienced a significant rise starting from the last quarter of 2003. While enjoying an environment in which our products' sales prices increase in line with that of stainless steel prices and robust demand, the management has adopted a prudent approach in conducting this trading business. The management has exercised cautions in selecting customers and tightening credit control in order to minimize the risk associated with accounts receivables. In addition, the management will maintain the sales volume of this business segment at the current level and optimize its stock by better anticipating the sales orders. Moreover, it is anticipated that stainless steel prices will be relatively stable for the remainder of the year.

Stainless Steel Casting

Tycon Alloy Industries (Hong Kong) Co., Ltd. and Tycon Alloy Industries (Shenzhen) Co., Ltd.

During the period under review, this business segment recorded a turnover of approximately HK\$51,017,000, (2003: HK\$30,326,000) representing an increase of 68% over the same period last year, but the operating profit decreased by 51% to approximately HK\$6,306,000 (2003: HK\$12,751,000).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Stainless Steel Casting (Continued)

Owing to the long lead-time associated with this business and the relatively fast rise of its stainless steel raw material, the profit margins of this business have been unfavourably affected. Nevertheless, the management expects that the profit margins will gradually improve as new orders are renegotiated. Furthermore, to maintain competitiveness, the management has already taken appropriate cost control measures and will focus on their efforts on improvement in production efficiencies and continue to diversify its products and sales to additional geographical areas.

Jointly Controlled Entity

Monforts Fong's Textile Machinery Co. Limited ("Monforts Fong's")

During the period under review, the turnover of Monforts Fong's was approximately HK\$121,159,000, a decrease of 22% as compared with the corresponding period last year. The decrease in sales volume was mainly hampered by the short-term slowdown in capital expenditure in the textile industry due to China's austerity measures. Nevertheless, the management believes that following the elimination of US textile quotas in January, 2005, China is expected to gain a decisive share of the global apparel market. Customers are expected to purchase new textile equipment to enhance productivity in order to pave their way for future development and competition.

In addition to its flagship product "Stenters", Monforts Fong's has recently launched a new product "**Thermefix**", which is for thermosoling, curing and dyeing of dimensionally stable woven fabrics, thus offering customers with greater choices. These products have received very positive market responses.

As mentioned in the Annual Report 2003, the production facilities of the new factory building at the Group's existing factory site in Buji, Shenzhen, China will be completed by the end of September, 2004. The management believes that the expanded factory complex will further increase production capacity and efficiency and thus enhance profitability.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Associates

Foshan East Asia Company Limited (a 30% owned associate)

The business of sale of woven color fabrics conducted by Foshan East Asia Company Limited reported a modest set back. During the period under review, the Group's share of profit decreased from HK\$1,095,000 to HK\$726,000. The management has endeavored to keep on its efforts on reducing costs and increasing competitiveness. Nevertheless, the Board believes that this business will continue to provide positive contribution to the profit of the Group.

Prospects

Despite the slowdown in our core business caused directly by the austerity measures being implemented in China, the Board continues to maintain an optimistic outlook for the Group's businesses. In particular, with only approximately four months remaining in the removal of quotas under the WTO agreement, following the acquisition of SCHOLL-THEN and the increase in the production capacity at our Monforts Fong's Joint Venture, the Group is now well positioned to take advantage of the foreseeable acceleration in the growth of the textile industry in both China and Asia. Consequently, the Board views the current slow down in sales and profit of its core business as only temporary following several years of very strong growth.

Liquidity and Capital Resources

The Board considers the Group's financial position as healthy and believes that the Group has adequate financial resources to meet its cash flow requirements.

As at June 30, 2004, the Group's bank borrowings, net of cash and bank balances, were approximately HK\$51,617,000. The gearing ratio of 7% and the current ratio of 1.84 times reflected a healthy liquidity level.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Capital Resources (Continued)

As at June 30, 2004, bank borrowings amounted to approximately HK\$251,416,000 of which approximately 35% were secured by certain assets of the Group. All bank borrowings are repayable within one year. Most bank borrowings were sourced from Hong Kong, of which approximately 32% were denominated in Hong Kong dollars and the remaining were denominated in US dollars. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at June 30, 2004, the cash and bank balances amounted to approximately HK\$202,435,000 of which approximately 31% were denominated in Renminbi, 28% in Hong Kong dollars, 22% in Euro, 14% in US dollars, 4% in Japanese Yen and the remaining 1% were denominated in various foreign currencies.

Human Resources

As at June 30, 2004, the Group employed a total of approximately 3,000 employees. They were remunerated according to their performance, working experience and the prevailing industry practice and market conditions. Other employee benefits available for eligible employees include retirement benefits scheme, share option scheme, performance bonus and sales commission.

DIRECTORS' INTERESTS

As at June 30, 2004, the interests of the directors and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as required to be disclosed under and within the meaning of Part XV of the SFO were as follows:

Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares held	Percentage of shareholding in the Company
Mr. Fong Sou Lam	Beneficial owner	14,666,000	2.61%
Mr. Fong Kwok Leung, Kevin	Beneficial owner	1,550,000	0.28%
	Held by spouse	200,000	0.03%
	Held by discretionary trusts (<i>Note</i>)	304,875,601	54.40%
		306,625,601	54.71%
Mr. Fong Kwok Chung, Bill	Beneficial owner	2,998,000	0.54%
	Corporate interest	1,292,000	0.23%
	Held by discretionary trusts (<i>Note</i>)	304,875,601	54.40%
		309,165,601	55.17%
Mr. Cheuk Hon Kin, Kelvin	Beneficial owner	100,000	0.02%
Ms. Poon Hang Sim, Blanche	Beneficial owner	150,000	0.03%

Note: The 304,875,601 shares are owned by two discretionary trusts, the beneficiaries of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members. These shares represented an interest duplicated amongst those two directors.

DIRECTORS' INTERESTS (Continued)

Save as disclosed above, as at June 30, 2004, none of the directors and the chief executive of the Company and their respective associates were under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations, that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the six months ended June 30, 2004 was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS

As at June 30, 2004, the following persons had an interest in the following long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long position in shares of the Company

Name of Shareholder	Notes	Nature of interest	Number of shares held	Percentage of shareholding in the Company
GBOGH Assets Limited	(1) and (2)	Beneficial owner	287,397,360	51.28%
The Capital Group Companies Inc.		Beneficial owner	49,831,300	8.89%

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS (Continued)

Notes:

- (1) GBOGH Assets Limited is owned by a discretionary trust, the beneficiary of which include Mr. Fong Kwok Leung, Kevin, Mr. Fong Kwok Chung, Bill and other Fong's family members.
- (2) The following companies are wholly-owned by GBOGH Assets Limited and their respective interests, as listed below, in the shares of the Company are included in the 287,397,360 shares listed under GBOGH Assets Limited:

Name of Shareholder	Nature of interest	Number of shares held	Percentage of shareholding in the Company
Sheffield Holdings Company limited	Beneficial owner	58,197,360	10.39%
Reeds Limited	Beneficial owner	57,600,000	10.28%
Runaway Holdings Limited	Beneficial owner	57,600,000	10.28%
Derby Holdings Company Limited	Beneficial owner	48,000,000	8.56%
Polar Bear Holdings Limited	Beneficial owner	48,000,000	8.56%
Bristol Investments Limited	Beneficial owner	18,000,000	3.21%

Save as disclosed above, as at June 30, 2004, there was no other person (other than the directors or the chief executive of the Company) who was recorded in the register of the Company as having an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or in any options in respect of such capital.

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

During the six months ended June 30, 2004, the Company purchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
April	2,502,000	6.85	6.60	16,853,300
May	116,000	6.85	6.75	789,700
	<u>2,618,000</u>			<u>17,643,000</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase amounting to HK\$17,362,640 (net of dividend entitlement of HK\$18,560) was charged against share premium. An amount of HK\$261,800 equivalent to the nominal value of the cancelled shares was transferred from retained profits to capital redemption reserve.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2004.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited condensed financial statements for the six months ended June 30, 2004. The members of the Audit Committee comprise the three independent non-executive directors of the Company, Mr. Cheung Chiu Fan, Mr. Lui Chi Lung, Louis and Dr. Yuen Ming Fai.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The directors are not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules for any part of the accounting period covered by this interim report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding directors' securities transactions as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the directors, none of the directors has not complied with, for any part of the accounting period covered by this interim report, the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

On behalf of the Board

Fong Sou Lam

Chairman

As at the date of this interim report, the Board consists of:

Executive Directors:

Mr. Fong Sou Lam (*Chairman*)
Mr. Lee Che Chiu (*Managing Director*)
Mr. Fong Kwok Leung, Kevin
Mr. Fong Kwok Chung, Bill
Mr. Mo Yiu Leung, Jerry
Mr. Cheuk Hon Kin, Kelvin
Dr. Tsui Tak Ming, William
Mr. Tsui Wai Keung
Ms. Poon Hang Sim, Blanche

Independent Non-executive Directors:

Mr. Cheung Chiu Fan
Mr. Lui Chi Lung, Louis
Dr. Yuen Ming Fai

Hong Kong, September 9, 2004