



# HF 185

**HENG FUNG HOLDINGS LIMITED**

HONG KONG STOCK EXCHANGE: STOCK CODE 185



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## **CORPORATE INFORMATION**

### **Board of Directors**

#### *Executive Directors*

Chan Heng Fai (*Managing Chairman*)

Chan Tong Wan (*Managing Director*)

Chan Yoke Keow

Chan Sook Jin, Mary-ann

#### *Non-executive Director*

Fong Kwok Jen

#### *Independent non-executive Directors*

Lee Ka Leung, Daniel

Wong Dor Luk, Peter

### **Company Secretary**

Chan Suk King, Zoe

### **Auditors**

Deloitte Touche Tohmatsu

### **Solicitors**

Herbert Smith

### **Principal Banker**

Hang Seng Bank Limited

### **Share Registrar**

Friendly Registrars Limited

Ground Floor, Bank of East Asia Harbour View Centre

56 Gloucester Road, Wanchai

Hong Kong

### **Registered Office & Principal Office**

Room 2601, 26th Floor

Island Place Tower

510 King's Road

North Point, Hong Kong

### **Web Site**

<http://www.185hk.com>

## FINANCIAL HIGHLIGHTS

### RESULTS

	Unaudited Six months ended		Change
	September 30		
	2003	2002	
	HK\$'000	HK\$'000	
	(unaudited)	(unaudited)	
Turnover	179,988	72,409	149%
Profit (loss) attributable to shareholders	63,744	(8,316)	N/A
Earnings (loss) per share	4.28 cents	(0.63 cents)	N/A

### FINANCIAL POSITION

	9.30.2003	3.31.2003	Change
	HK\$'000	HK\$'000	
	(unaudited)	(audited)	
Shareholders' fund	518,418	455,194	14%
Total assets	635,203	567,803	12%
Cash and near cash (include bank balance, cash and balance in securities brokers)	136,219	115,265	18%
Gearing ratio (Total borrowings/ Shareholders' equity)	13%	13%	

## INTERIM RESULTS

The Board of Directors (the “Board”) of Heng Fung Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”), which have been reviewed by the Company’s external auditors, for the six months ended September 30, 2003 as follows:–

### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003

	NOTES	Six months ended	
		9.30.2003 HK\$'000 (unaudited)	9.30.2002 HK\$'000 (unaudited)
Turnover	4	179,988	72,409
Cost of sales		<u>(124,172)</u>	<u>(43,671)</u>
Gross profit		55,816	28,738
Other operating income		334	1,026
Distribution costs		–	(400)
Administrative expenses		(51,972)	(48,521)
Other operating expenses		–	(8,503)
Net gain (loss) on investments in securities		38,440	(19,388)
Provision for guaranteed liabilities		<u>–</u>	<u>(5,129)</u>
Profit (loss) from operations	5	42,618	(52,177)
Finance costs		(4,189)	(4,634)
Share of results of an associate		–	(2,302)
Gain on partial/deemed disposal of subsidiaries and an associate		<u>24,683</u>	<u>37,798</u>
Profit (loss) before taxation		63,112	(21,315)
Taxation	6	<u>–</u>	<u>474</u>
Net profit (loss) before minority interests		63,112	(20,841)
Minority interests		<u>632</u>	<u>12,525</u>
Net profit (loss) for the period		<u>63,744</u>	<u>(8,316)</u>
Earnings (loss) per share			
Basic and diluted	8	<u>4.28 cents</u>	<u>(0.63 cents)</u>

**CONDENSED CONSOLIDATED BALANCE SHEET  
AT SEPTEMBER 30, 2003**

	<i>NOTES</i>	<b>9.30.2003</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>3.31.2003</b> <i>HK\$'000</i> <b>(audited)</b>
<b>Non-current assets</b>			
Investment properties	9	11,482	11,482
Property, plant and equipment	9	12,566	13,360
Goodwill		18,251	20,987
Interest in an associate		19,300	–
Intangible assets		1,238	2,936
Investments in securities		16,530	12,887
Pledged bank deposits		3,900	3,963
		<hr/>	<hr/>
		83,267	65,615
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories		408	457
Properties held for sale		79	79
Trade and other receivables	10	65,812	83,733
Receivables from securities brokers	11	70,197	–
Taxation recoverable		473	473
Amounts due from associates		–	13
Loans receivable – due within one year		4,451	1,510
Investments in securities	12	340,020	300,658
Pledged bank deposits		4,474	–
Bank balances and cash		66,022	115,265
		<hr/>	<hr/>
		551,936	502,188
		<hr/>	<hr/>
<b>Total assets</b>		<b>635,203</b>	<b>567,803</b>
		<hr/>	<hr/>

	<i>NOTES</i>	<b>9.30.2003</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>3.31.2003</b> <i>HK\$'000</i> <b>(audited)</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital	<i>14</i>	372,029	372,029
Reserves	<i>15</i>	146,389	83,165
		<u>518,418</u>	<u>455,194</u>
<b>Minority interests</b>		<u>12,427</u>	<u>8,922</u>
<b>Non-current liabilities</b>			
Borrowings		9,169	9,442
Convertible debentures		49,782	49,370
Amounts due to associates		1,705	1,679
Deferred taxation		1,014	1,014
		<u>61,670</u>	<u>61,505</u>
<b>Current liabilities</b>			
Trade and other payables	<i>13</i>	32,438	41,563
Borrowings		10,164	533
Taxation payable		86	86
		<u>42,688</u>	<u>42,182</u>
<b>Total equity and liabilities</b>		<u><u>635,203</u></u>	<u><u>567,803</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

	<b>Total equity</b>	
	<b>Six months ended</b>	
	<b>9.30.2003</b>	<b>9.30.2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
At beginning of the period	455,194	228,767
Goodwill reserve released on partial/deemed disposal of subsidiaries and an associate	(520)	13,094
Issue of ordinary shares	–	55,000
Issue of bonus shares	–	(35,000)
Net profit (loss) for the period	63,744	(8,316)
	<u>518,418</u>	<u>253,545</u>
At end of the period	<u>518,418</u>	<u>253,545</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

	<b>Six months ended</b>	
	<b>9.30.2003</b>	<b>9.30.2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
NET CASH USED IN OPERATING ACTIVITIES	(50,044)	(33,482)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(4,780)	69,798
NET CASH FROM FINANCING ACTIVITIES	5,581	29,638
	<u>(49,243)</u>	<u>65,954</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(49,243)	65,954
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	115,265	71,632
	<u>115,265</u>	<u>71,632</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	66,022	137,586
	<u>66,022</u>	<u>137,586</u>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	66,022	137,586
	<u>66,022</u>	<u>137,586</u>



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

**1. GENERAL**

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. Its subsidiaries are principally engaged in investment holding, property investment and development, securities investment, the credit card business and the health care business.

**2. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 (“SSAP 25”) “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

**3. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention as modified for revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended March 31, 2003 except as described below.

**Income taxes**

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes” issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been made.

**4. SEGMENT INFORMATION**

**Business segments**

For management purposes, the Group is currently organised into five operating divisions – credit card operations, securities trading and investments, treasury investment, property investment and health care. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	<b>Turnover</b>		<b>Contribution to profit (loss) from operations</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>9.30.2003</b>	<b>9.30.2002</b>	<b>9.30.2003</b>	<b>9.30.2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
By business segment:				
Credit card operations	9,603	21,886	1,720	9,997
Securities trading and investments	138,994	22,106	72,512	(19,344)
Treasury investment	1,030	896	(2,478)	896
Property investment	634	951	351	951
Health care	29,727	26,570	1,481	1,954
	<u>179,988</u>	<u>72,409</u>	73,586	(5,546)
Unallocated corporate revenue			334	1,026
Unallocated corporate expenses			(31,302)	(42,528)
Provision for guaranteed liabilities			<u>—</u>	<u>(5,129)</u>
Profit (loss) from operations			<u>42,618</u>	<u>(52,177)</u>

## 5. PROFIT (LOSS) FROM OPERATIONS

	<b>Six months ended</b>	
	<b>9.30.2003</b>	<b>9.30.2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>

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

Depreciation	1,017	1,635
Amortisation of goodwill included in administrative expenses	2,736	2,704
Amortisation and write off of intangible assets included in administrative expenses	1,844	1,756
Dividend income	<u>(1,675)</u>	<u>(490)</u>

## 6. TAXATION

The taxation credit of prior period represented overprovision of profit tax in other jurisdiction.

No provision for Hong Kong Profits Tax and overseas taxation have been made in the condensed financial statements as the Group had no assessable profit for both periods.

## 7. DIVIDEND

No dividend was paid during the period. The directors do not recommend the payment of an interim dividend.

## 8. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on net profit for the period of HK\$63,744,000 (six months ended September 30, 2002: loss of HK\$8,316,000) and on the weighted average number of 1,488,117,965 shares (six months ended September 30, 2002: 1,327,348,734 shares) as adjusted for share subdivision effected on December 4, 2003 as set out in note 18(d).

No diluted earnings per share for the period ended September 30, 2003 has been presented because the exercise price of the Company's options/warrants was higher than the average market price of the Company's shares for the period ended September 30, 2003 and the conversion of the Group's outstanding convertible bonds would result in an increase in net profit per share from operations.

The computation of diluted loss per share for the period ended September 30, 2002 does not assume the exercise of potential dilutive ordinary shares as their exercise would result in reduction in loss per share for the period ended September 30, 2002.

## 9. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired of property, plant and equipment at the cost of HK\$223,000 (six months ended September 30, 2002: HK\$1,277,000).

For six months ended September 30, 2002, the Group disposed of investment properties and property, plant and equipment with carrying amount of HK\$13,923,000 and HK\$54,682,000 respectively arising from reclassification of a subsidiary to an associate.

## 10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit terms of 45 days to its trade customers of health care business and up to 56 days interest free repayment period for the credit card holders for retail sales.

The following is an aged analysis of trade receivables at the reporting date:

	<b>9.30.2003</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>3.31.2003</b> <i>HK\$'000</i> <b>(audited)</b>
0 – 60 days	33,322	40,483
61 – 90 days	236	964
Over 90 days	2,709	1,262
Promissory note receivable	9,000	19,000
Deposits, prepayments and other receivables	20,545	22,024
	<hr/> <b>65,812</b>	<hr/> <b>83,733</b>

## 11. RECEIVABLES FROM SECURITIES BROKERS

Receivables from securities brokers represent the balances held by securities brokers in respect of the proceeds arising from sales of securities. These amounts have been released to the Group subsequent to September 30, 2003.

## 12. INVESTMENTS IN SECURITIES

On July 8, 2002, the Group entered into an agreement with RNA Holdings Limited (“RNA”) for the sales of discount cards which entitle the card holders to certain privileges and discounts from retail shops at a consideration of HK\$15,000,000 and for the disposal of 1% equity interest in a subsidiary, Online Credit Card Limited at a consideration of HK\$4,000,000.

The aggregate amount of HK\$19,000,000 was settled by the issue of a promissory note (the “Note”) from RNA and the Note was unsecured, interest free and repayable within one year. On March 3, 2003, the Company further entered into a subscription agreement with RNA for the settlement of such receivable by the issue of RNA’s new ordinary shares pursuant to a debt restructuring exercise which are subject to approvals by the shareholders of RNA. On July 14, 2003, the subscription agreement was approved and 965,147,945 shares of RNA were allotted to the Group as settlement of the Note. However, the trading of the shares of RNA was suspended before the aforesaid settlement and has not been resumed up to the date of this report. The market value of the shares of RNA, representing the fair value of the shares of RNA, is not available. However, the fair value of the shares will only be known with reasonable certainty upon resumption of trading in the shares.

## 13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	<b>9.30.2003</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>3.31.2003</b> <i>HK\$'000</i> <b>(audited)</b>
0 – 60 days	2,802	10,993
61 – 90 days	–	234
Over 90 days	37	820
Accruals and other payables	29,599	29,516
	<hr/> <b>32,438</b> <hr/>	<hr/> <b>41,563</b> <hr/>

## 14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
At April 1, 2003, ordinary shares of HK\$0.25 each	2,000,000,000	500,000
Share consolidation, ordinary shares of HK\$6.25 each	(1,920,000,000)	–
Increase on May 9, 2003, ordinary shares of HK\$6.25 each	1,520,000,000	9,500,000
	<u>1,600,000,000</u>	<u>10,000,000</u>
At September 30, 2003, shares of HK\$6.25 each	<u>1,600,000,000</u>	<u>10,000,000</u>
<i>Issued and fully paid:</i>		
At April 1, 2003, ordinary shares of HK\$0.25 each	1,488,117,965	372,029
Share consolidation, ordinary shares of HK\$6.25 each	(1,428,593,247)	–
	<u>59,524,718</u>	<u>372,029</u>
At September 30, 2003, ordinary shares of HK\$6.25 each	<u>59,524,718</u>	<u>372,029</u>

*Note:* At the extraordinary general meeting of the Company held on May 9, 2003, the Company approved to effect a share consolidation pursuant to which every 25 existing issued and unissued shares will be consolidated into 1 share (“Consolidated Share”) of HK\$6.25 each. On the same date, the authorised share capital of the Company was increased from HK\$500,000,000 to HK\$10,000,000,000 by creation of 1,520,000,000 Consolidated Shares.

At the extraordinary general meeting of the Company held on December 3, 2003, the Company approved to effect a share subdivision as set out in note 18(d).

## 15. RESERVES

	Share premium HK\$'000	Goodwill reserve HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At April 1, 2002	366,509	(24,161)	1,479	–	12,531	(444,620)	(88,262)
Released on partial/ deemed disposal of subsidiaries and an associate	–	12,678	586	–	(170)	–	13,094
Issue of bonus shares	(35,000)	–	–	–	–	–	(35,000)
Net loss for the period	–	–	–	–	–	(8,316)	(8,316)
	<u>331,509</u>	<u>(11,483)</u>	<u>2,065</u>	<u>–</u>	<u>12,361</u>	<u>(452,936)</u>	<u>(118,484)</u>
At September 30, 2002	<u>331,509</u>	<u>(11,483)</u>	<u>2,065</u>	<u>–</u>	<u>12,361</u>	<u>(452,936)</u>	<u>(118,484)</u>
At April 1, 2003	331,509	(8,751)	1,479	570	12,531	(254,173)	83,165
Released on partial disposal of a subsidiary	–	(520)	–	–	–	–	(520)
Net profit for the period	–	–	–	–	–	63,744	63,744
	<u>331,509</u>	<u>(9,271)</u>	<u>1,479</u>	<u>570</u>	<u>12,531</u>	<u>(190,429)</u>	<u>146,389</u>
At September 30, 2003	<u>331,509</u>	<u>(9,271)</u>	<u>1,479</u>	<u>570</u>	<u>12,531</u>	<u>(190,429)</u>	<u>146,389</u>

## **16. CONTINGENT LIABILITIES**

At the balance sheet date, contingent liabilities of the Group were as follows:

- (a) Actions were brought by Pricerite Stores Limited and Pricerite Group Limited (together referred to as “Pricerite”) respectively, against a subsidiary of the Company, in respect of the alleged breach of agreement, for damages which are not quantified. In the opinion of the directors, it is not practicable at this stage to determine with certainty the outcome of the litigation.
- (b) During the period, the Company received claims from certain shareholders of an associate, eVision International Inc. (“eVision”), involving the transfer of certain assets from eVision for settlement of debt owed to a subsidiary of the Company in 2001 and the calculation and reporting of certain dividend payments that were made to the plaintiffs pursuant to the terms of Series B-1 Preferred Stock that was issued by eVision in November 1999. However, damages sought are not quantified. After considering the legal advice, the management are of the opinion that the likelihood of the Company suffering from any material loss in respect of these claims is remote and no material financial impact would be resulted from these claims.

## **17. PLEDGE OF ASSETS**

At September 30, 2003, the Group pledged bank deposits of HK\$3,900,000 (March 31, 2003: HK\$3,963,000) as securities for the credit card business transactions with MasterCard International Inc.

At September 30, 2003, the Group pledged investments in securities of HK\$3,822,000 (March 31, 2003: nil) and bank deposits of HK\$4,474,000 (March 31, 2003: nil) for general banking facilities.

The mortgage loans of HK\$9,169,000 (March 31, 2003: HK\$9,975,000) are secured on the investment properties and buildings of the Group with an aggregate carrying value of HK\$16,812,000 (March 31, 2003: HK\$16,877,000).

## 18. POST BALANCE SHEET EVENTS

- (a) On July 24, 2003, Online Credit Limited (“OCL”), a subsidiary of the Company, entered into a conditional bond subscription agreement to subscribe for a convertible bond with principal amount of Singapore dollars (“S\$”) 4,000,000 and a call option issued by Futuristic Image Builder Ltd. (“Futuristic”), a company incorporated in the Singapore with its shares listed on The Singapore Exchange Securities Trading Limited, for a consideration of S\$4,000,000. The consideration will be satisfied by the payment of S\$1,500,000 in cash, transfer of 3,050,000 common shares of a subsidiary of the Group, Global Med Technologies Inc. (“Global Med”) at a consideration of S\$2,499,999 and procurement of exclusive marketing rights for all technology, products and services provided by Global Med for the countries of Indonesia, Malaysia, Thailand and Singapore at a nominal consideration of S\$1. The convertible bond to be issued with a zero coupon and may be convertible during the period from its issue to its maturity after 2 years at a conversion price of S\$0.10 each in Futuristic. Upon conversion of the convertible bond and exercise of the call option, the Group will hold approximately 38.3% and 49.6% respectively of the enlarged issued share capital of Futuristic. The transaction was completed on November 11, 2003.
- (b) On September 5, 2003, the Group entered into a conditional agreement with EnerSave Holdings Limited (“Enersave”), pursuant to which the Group has agreed to grant a call option which, if fully exercised, will result in the disposal of up to 300,000,000 existing ordinary shares in China Gas Holdings Limited (“China Gas”) for an aggregate consideration of S\$68 million to be satisfied by the issuance and allotment of the 453,333,333 new Enersave’s shares. On December 8, 2003, the Group and Enersave entered into a supplemental agreement which provides for a reduction of the right in the call option to acquire ordinary shares of China Gas from 300,000,000 to 150,000,000 and a put option was granted by Enersave to the Group in respect of an additional 150,000,000 ordinary shares of China Gas. If only the call option or only the put option is exercised in full, the consideration of approximately HK\$153 million will be satisfied by the issuance and allotment of 226,666,666 new Enersave’s shares and the Group will hold approximately 64% of Enersave’s enlarged issued share capital. Upon full exercise of the call option by Enersave and put option by the Group, the maximum number of shares of China Gas to be disposed of is 300,000,000 ordinary shares, the aggregate consideration of approximately HK\$306 million will be satisfied by the issuance and allotment of 453,333,333 new Enersave’s shares and the Group will hold approximately 77% of Enersave’s enlarged issued share capital.
- (c) On November 8, 2003 (and as amended on November 11, 2003), the Company entered into a placing and subscription agreement with China Gas and the placing agent. Pursuant to the agreement, the Company has agreed to place, through the placing agent, an aggregate of 160,000,000 shares of China Gas to independent investors at a placing price of HK\$0.84 per China Gas share and has agreed to subscribe for and China Gas has agreed to allot and issue subscription shares in cash at a subscription price equal to the placing price.
- (d) At the extraordinary general meeting of the Company held on December 3, 2003, the Company approved to effect a share subdivision pursuant to which every 1 existing issued and unissued shares of HK\$6.25 each will be subdivided into 25 subdivided shares of HK\$0.25 each.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group's turnover for the six months ended September 30, 2003 was HK\$180.0 million, compared to turnover of HK\$72.4 million for the same period in 2002, representing a 149% increase. Profit attributable to shareholders for the six months ended September 30, 2003 was HK\$63.7 million compared to a loss attributable to shareholders of HK\$8.3 million for the same period in 2002. The earnings per share for the six months ended September 30, 2003 was HK4.28 cents compared to a loss per share of HK0.63 cents for the same period in 2002.

### Financial and Securities Investment Division

The HK\$107.6 million increase in turnover was primarily due to the out-performance of the financial and securities investment division in line with the increase in securities market activities. Total investment income was HK\$139.0 million, 529% higher than HK\$22.1 million reported for the same period last year. The division contributed a profit of HK\$72.5 million which was predominantly due to the net realised gains of HK\$32.4 million and net unrealised mark-to-market gains of HK\$40.1 million on the investment portfolio.

### Credit Card Division

During the period, the Group's credit card business was affected by the outbreak of Severe Acute Respiratory Syndrome (SARS) and the travel warning issued by the World Health Organization in March 2003. Thousands of people were quarantined at home after being exposed to SARS victims. Streets, shopping malls, restaurants and theatres were deserted. Economic recovery still seemed far off as unemployment and personal bankruptcies figures kept climbing to record highs, deflation persisted, and consumer credit demand further weakened. Retail sales fell 14% in April 2003 at the height of the outbreak. Net interest income was down 56% year-on-year to HK\$9.6 million due to lower average outstanding loan balances.

The Group recorded a profit of HK\$15.7 million on the disposal of the Group's 9% interest in each of the issued share capital of three subsidiaries engaged in credit card and consumer card businesses.

### Health Care

Global Med Technologies, Inc. ("Global Med"), a US e-Health medical information technology company, which offers products and services and presently manage more than 22% of the U.S. blood supply, has contracts to expand into the American Red Cross's blood network and is also closely working with Safe Blood for Africa™ Foundation, as one of the top companies providing products, support and services to help establish urgently needed blood services and support throughout sub-Saharan Africa, in order to help stop the transmission of AIDS through contaminated blood transfusions. Global Med's subsidiary, PeopleMed.com, Inc., provides revolutionary software applications designed to provide comprehensive clinical information on chronic disease patients to increase quality of care while decreasing administrative costs.

During the period, the health care business recorded a turnover of HK\$29.7 million, compared to turnover of HK\$26.6 million for the same period in 2002, representing a 12% increase. The operating profit of HK\$1.5 million compared to HK\$2.0 million for the same period in 2002.



## **Liquidity and Capital Management**

The Group monitors its liquidity position as part of its ongoing assets and liabilities management. The balance between liquidity and profitability is carefully considered.

As at September 30, 2003, the Group's current ratio was 12.9 (3.31.2003: 11.9) and the gearing of the Group was 13.3% (3.31.2003: 13.0%), which was calculated based on the total borrowings of HK\$69.1 million and the shareholders' equity of HK\$518.4 million. Cash, bank balance and balance in securities brokers amounted to HK\$136.2 million (3.31.2003: HK\$115.3 million).

## **Material acquisitions, disposals and significant investments**

In December 2002, the Company entered into a conditional agreement to acquire 39.51% of the issued capital and 1,050,000 warrants of American Pacific Bank, a licensed bank incorporated in the U.S. with its shares listed on NASDAQ in the U.S. for a consideration of HK\$134 million. The acquisition was approved by the independent shareholders of the Company in May 2003 but was subject to the approval by relevant government and/or regulatory authorities in the U.S. Due to the change in the prevailing market conditions, the share price of the Company has increased significantly and the Company considered that issuing shares upon full conversion of the convertible bonds at a great discount was not for the best interest of the Company and the shareholders of the Company as a whole. Therefore, the Company requested the Vendor on September 5, 2003, and the Vendor has agreed on the same day, that both the Company and the Vendor have elected to treat the Agreement to have ceased and determined.

On February 27, 2003, an agreement was entered into between the Group and Enersave Holdings Limited ("Enersave"), a company incorporated in Singapore and its shares are listed on The Singapore Exchange Securities Trading Limited ("SGX-ST") pursuant to which the Group agreed to sell respectively 9% equity interest in each of Online Credit Card Limited ("OCCL"), Online Discount Card Limited and China Credit Card Limited, subsidiaries of the Group, for a total consideration of S\$6,000,000 to be satisfied by the allotment and issue of 40,000,000 new shares of Enersave. The transaction was completed on July 2, 2003 and Enersave was classified as an associate of the Group.

On July 24, 2003, the Group entered into a conditional bond subscription agreement to subscribe for a convertible bond with principal amount of S\$4,000,000 and a call option issued by Futuristic Image Builder Ltd. ("Futuristic"), a company incorporated in Singapore and its shares are listed on the SGX-ST, for a consideration of S\$4,000,000. The consideration was satisfied by the payment of S\$1,500,000 in cash, transfer of 3,050,000 common shares of a subsidiary of the Group, Global Med at a consideration of S\$2,499,999 and procuring Futuristic with exclusive marketing rights for all technology, products and services provided by Global Med for the countries of Indonesia, Malaysia, Thailand and Singapore at a nominal consideration of S\$1. The convertible bond may be convertible during the period from its issue to its maturity after 2 years at a conversion price of S\$0.10 each in Futuristic. Upon conversion of the convertible bond and exercise of the call option, the Group will hold approximately 38.3% and 49.6% respectively of the enlarged issued share capital of Futuristic. The transaction was completed in November, 2003.

On August 27, 2003, the Group entered into a securities exchange agreement with an independent third party pursuant to which the Group transferred 14,657,000 ordinary shares of HK\$0.01 par value each in the capital of China Gas Holdings Limited ("China Gas") in exchange for 8,000,000 ordinary shares representing approximately 10% in the capital of Novena Holdings Ltd. ("Novena") from the independent third party, the shares of Novena are listed on the SGX-ST.

On August 29, 2003, the Group entered into an agreement to dispose of 2% of the issued share capital of a subsidiary, Global Med China & Asia Limited to an independent third party for a consideration of HK\$9 million and satisfied in full by issuance of promissory notes.

On September 5, 2003, the Group entered into a conditional agreement with Enersave, pursuant to which the Group has agreed to grant a call option which, if fully exercised, will result in the disposal of up to 300,000,000 existing ordinary shares in China Gas for an aggregate consideration of S\$68 million to be satisfied by the issuance and allotment of the 453,333,333 new Enersave Shares. On December 8, 2003, the Group and Enersave entered into a supplemental agreement which provides for a reduction of the right in the call option to acquire ordinary shares of China Gas from 300,000,000 to 150,000,000 and a put option was granted by Enersave to the Group in respect of the 150,000,000 ordinary shares of China Gas. If only the call option or only the put option is exercised in full, the consideration of approximately HK\$153 million will be satisfied by the issuance and allotment of 226,666,666 new Enersave's shares and the Group will hold approximately 64% of Enersave's enlarged issued share capital. Upon full exercise of the call option by Enersave and put option by the Group, the maximum number of China Gas shares to be disposed of is 300,000,000 ordinary shares, the aggregate consideration of approximately HK\$306 million will be satisfied by the issuance and allotment of 453,333,332 new Enersave's shares and the Group will hold approximately 77% of Enersave's enlarged issued share capital.

On November 8, 2003 (and as amended on November 11, 2003), the Company entered into a placing and subscription agreement with China Gas and the placing agent. Pursuant to the agreement, the Company has agreed to place, through the placing agent, an aggregate of 160,000,000 shares of China Gas to independent investors at a placing price of HK\$0.84 per China Gas share and has agreed to subscribe for and China Gas has agreed to allot and issue subscription shares in cash at a subscription price equal to the placing price.

#### **Foreign exchange exposure**

Substantially all the revenues, expenses, assets and liabilities are denominated mainly in Hong Kong dollars, U.S. dollars or Singapore dollars. Due to the currency peg of the Hong Kong dollars to the U.S. dollars, the exchange rate between these two currencies has remained stable and thus no hedging or other alternatives have been implemented by the Group. The Group expected that there is no significant exposure on foreign currency, but it cannot be assured operating results in future will not be materially affected.

#### **Credit risk management**

The Group's credit policy defines the credit extension criteria, the credit approval and monitoring processes, and the loan provisioning policy. The Group maintains tight control on loan assessments and approvals and will continue to exercise a conservative and prudent policy in granting loans in order to maintain a quality loan portfolio and manage the credit risk exposure of the Group.

#### **Human resources**

Remuneration packages are generally structured by reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. At the balance sheet date, there were approximately 100 employees employed by the Group. Share options may also be granted to eligible employees and persons of the Group.

## **Prospects**

It is our business strategy to continue to focus on the financial and securities investment businesses including corporate finance, consumer finance and the credit card business. We will continue to introduce other reputable strategic partners to create opportunities to enlarge the credit card customer base, enhance the Group's business connections, and build on our brand name and international recognition.

The Group's business direction includes diversification of country risk through the expansion and development of its existing business model of corporate finance, consumer finance and the credit card businesses outside of Hong Kong with a strong focus on Singapore.

The Group maintained a very strong cash position throughout the period and had a cash and near cash of over HK\$136 million as at September 30, 2003. This advantage, together with the continued growth of our core business and prudent investment strategies, makes us highly competitive in the current depressed economy. In view that the worst of Hong Kong's economic downturns appears to be over and we are now seeing the beginning of a recovery, we are realistically optimistic about our future. Our business foundation is strong and our strategic partnerships are solid. By effective utilisation of our capital, we intend to expand and extend our business in the years to come.

Going forward, the Group will increase its marketing efforts of its credit card products and health care products. Following the successful containment of the SARS outbreak, the local economy and market sentiment have been gradually returning to normal. The implementation of the CEPA would greatly enhance economic cooperation and integration between Hong Kong and the PRC, and the recent relaxation on government policy to permit PRC citizens to visit Hong Kong which provides enormous opportunities for our Group's future development. A greater variety of high quality products will be promoted to cater to different market needs and demands and we will continue efforts to develop the potential market in the PRC.

Given Global Med's significant position in the U.S. and its "best of breed" software, we believe Global Med has a very exciting future and substantial capital appreciation potential.

## **Contingent liabilities**

- (a) Actions were brought by Pricerite Stores Limited and Pricerite Group Limited (together referred to as "Pricerite") respectively, against a subsidiary of the Company, in respect of the alleged breach of agreement, for damages which are not quantified. In the opinion of the directors, it is not practicable at this stage to determine with certainty the outcome of the litigation.
- (b) The Company received claims from certain shareholders of an associate, eVision International, Inc. ("eVision"), involving the transfer of certain assets from eVision for settlement of debt owed to a subsidiary of the Company in 2001 and the calculation and reporting of certain dividend payments that were made to the plaintiffs pursuant to the terms of Series B-1 Preferred Stock that was issued by eVision in November 1999. However, damages sought are not quantified. After considering legal advice, management are of the opinion that the likelihood of the Company suffering from any material loss in respect of these claims is remote.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At September 30, 2003, the interests and short positions of the directors and the chief executive of the Company and/or any of their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

#### (1) Long positions in the shares of the Company

Name of directors	Number of Ordinary Shares				Total	Approximate % of Shareholding
	Personal interests	Corporate interests	Family interests	Other interests		
Chan Heng Fai	3,859,049	341,411 <i>(Note 1)</i>	21,019,972	–	25,220,432	42.37%
Chan Yoke Keow	1,257,491	17,373,137 <i>(Note 2)</i>	4,200,460	2,389,344 <i>(Note 3)</i>	25,220,432	42.37%
Chan Sook Jin, Mary-ann	1,026	–	136,640 <i>(Note 4)</i>	–	137,666	0.23%
Fong Kwok Jen	153,120	–	–	–	153,120	0.26%
Chan Tong Wan	704,499	–	–	–	704,499	1.18%
Wong Dor Luk, Peter	11,200	–	–	–	11,200	0.02%

#### Notes:

1. These shares are owned by Heng Fai China & Asia Industries Limited, in which Mr. Chan Heng Fai ("Mr. Chan") has a beneficial interest.
2. These shares are owned by BPR Holdings (BC) Inc., BPR Holdings (Far East) Limited, First Pacific International Limited and Prime Star Group Co. Ltd., in which Mrs. Chan Yoke Keow ("Mrs. Chan") has a beneficial interest.
3. These shares are owned by a discretionary trust, Bermuda Trust (Cook Islands) Limited. Mrs. Chan is one of the discretionary objects.
4. These shares are owned by Mr. Wooldridge Mark Dean, the spouse of Ms. Chan Sook Jin, Mary-ann.

(2) Long positions in the underlying shares of the Company

(i) Warrants

Name of directors	Personal interests	Number of securities held Corporate interests	Family interests	Other interests
Chan Yoke Keow	–	3,200,000 (Note)	–	–
Chan Heng Fai	–	–	3,200,000	–

Note: The warrants were issued pursuant to the Subscription Agreement dated May 27, 2002 entered into between the Company and Prime Star Group Co. Ltd., a company beneficially wholly-owned by Mrs. Chan Yoke Keow. The independent shareholders of the Company have approved the issue of the warrants and that no offer under Rule 26 of the Takeovers Code would arise on full exercise of the warrants.

(ii) Options

Pursuant to the Company's share option schemes adopted by the Company on September 28, 1995 ("Old Scheme") and May 9, 2003 ("New Scheme"), certain Directors in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for shares of the Company. No options have been granted under the New Scheme since the date of its adoption. The detail of the Company's share options under the Old Scheme as at September 30, 2003 were as follows:

Name of director	Date granted	Exercisable period	Exercise price HK\$	Number of option shares outstanding as at 4.1.2003 and 9.30.2003
<b>Category 1: Directors</b>				
Chan Heng Fai	4.22.1996	4.22.1996 – 4.21.2006	10.06	40,000
	5.15.1997	5.15.1997 – 5.14.2007	11.28	266,400
	10.26.1997	10.26.1997 – 10.25.2007	7.66	576,000
Chan Yoke Keow	4.22.1996	4.22.1996 – 4.21.2006	10.06	82,869
	5.15.1997	5.15.1997 – 5.14.2007	11.28	266,400
	10.26.1997	10.26.1997 – 10.25.2007	7.66	576,000
Chan Sook Jin, Mary-ann	10.26.1997	10.26.1997 – 10.25.2007	7.66	1,000,000
Aggregate total of directors				2,807,669
<b>Category 2: Employees</b>				
Total employees	5.15.1997	5.15.1997 – 5.14.2007	11.28	52,000
Total all categories				<u>2,859,669</u>

During the six months ended September 30, 2003, none of the Directors or their respective associates was granted shares options to subscribe for shares of the Company, nor exercised such rights.

**(3) Long positions in the shares of associated corporation**

At September 30, 2003, the following directors held interest in the shares of PeopleMed.com, Inc., a subsidiary of the Company as follows:

Name of directors	Number of ordinary shares held	
	Personal interests	Family interests
Chan Heng Fai	100,000	–
Chan Yoke Keow	–	100,000 (Note)
Chan Tong Wan	25,000	–
Fong Kwok Jen	25,000	–

*Note:* These shares are owned by Mr. Chan Heng Fai, the spouse of Mrs. Chan Yoke Keow.

**(4) Long positions in the underlying shares of the associated corporations**

The following outstanding options to subscribe for shares in the capital of the subsidiaries of the Company, granted to certain directors of the Company under the share option scheme of the subsidiaries are as follows:

(i) *eBanker USA.com, Inc. (“eBanker”)*

In January 1999, eBanker’s board of directors authorized the eBanker 1999 Incentive and Nonstatutory Stock Option Plan, with effective from January 18, 1999 through January 17, 2009, unless sooner terminated. The eBanker’s board of directors granted to certain eBanker’s directors, options to purchase 620,000 shares of eBanker’s common stock at US\$3.00 per share, exercisable immediately and for a period of ten years.

The following table presents the activity for options outstanding as of September 30, 2003:

	Number of share options at September 30, 2003
<b>Category 1: Directors</b>	
Chan Heng Fai	500,000
Fong Kwok Jen	100,000
	<hr/>
	600,000
<b>Category 2: Others</b>	
Former director	20,000
	<hr/>
Total all categories	<u>620,000</u>

The following table presents the composition of options outstanding and exercisable as of September 30, 2003:

	<b>Options Outstanding</b>		<b>Life*</b>	<b>Exercisable Options</b>	
	<b>Amount</b>	<b>Price*</b> US\$		<b>Amount</b>	<b>Price*</b> US\$
Total September 30, 2003	620,000	3.00	7.5 years	620,000	3.00

\* *Price and life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.*

There was no movement in share options granted by eBanker during the period.

(ii) *Global Med Technologies Inc. (“Global Med”)*

In the second quarter of 2001, Global Med adopted the 2001 Stock Option Plan (“2001 Plan”). The 2001 Plan provides for the issuance of options to purchase up to 15 million registered shares of common stock to employees, officers, directors and consultants of the Global Med. Options may be granted as incentive stock options or as nonqualified stock options. Only employees of Global Med are eligible to receive Incentive Options. The 2001 Plan expires on December 28, 2010.

The Second Amended and Restated Stock Option Plan (Plan) provides for the issuance of options to purchase up to 2.2 million registered shares of common stock to employees, officers, director and consultants of Global Med. Options may be granted as incentive stock or as nonqualified stock options. Only employees of Global Med are eligible to receive Incentive Options. The Plan expired on May 31, 2000.

Global Med also periodically grants options to purchase shares of restricted common stock. The shares underlying these options are not registered under the 1933 Act. In June 2003, the Global Med’s board of directors approved the 2003 Stock Option Plan (“2003 Plan”). The 2003 Plan provides for the issuance of stock options exercisable to purchase up to 5 million shares of the Global Med’s common stock to employees, officers, directors and consultants of Global Med. The board of directors of Global Med also approved the inclusion of options to purchase 4,766,500 shares under the 2003 Plan that were issued to such persons prior to the adoption of the 2003 Plan and lacked registration rights. Although approved by the board, Global Med has not yet filed a Form S-8 registration statement to register the 5 million shares issuable under the 2003 Plan. The range of the exercise prices of the 4,766,500 options is US\$0.56 to US\$2.50 per share. The weighted- average exercise price of these options is US\$0.74 per share.

In June 2003, the board of directors of Global Med authorized an amendment to the 2001 Plan (“2001 Plan”) reducing the number of common shares reserved and authorized for issuance by 5 million. Effective in June 2003, the total number of common shares approved for issuance under the 2001 Plan as authorized by the board is reduced from 15 million to 10 million. Global Med has not yet filed an amendment to the existing Form S-8 registration statement to effect this change.

The following table presents the activity for options for the period ended as of September 30, 2003:

<b>Name of Director</b>	<b>Exercise Price</b> <i>US\$</i>	<b>Number of share options at 9.30.2003</b>
<i>Category 1: Directors</i>		
Chan Heng Fai	0.78	250,000
Chan Tong Wan	0.66	50,000
Fong Kwok Jen	0.78	<u>150,000</u>
		450,000
<i>Category 2: Employees</i>		
Total employees		<u>8,529,942</u>
		<u><u>8,979,942</u></u>
	<b>Option</b>	<b>Price*</b> <i>US\$</i>
As at April 1, 2003	8,911,942	0.75
Granted	<u>68,000</u>	<u>0.58</u>
As at September 30, 2003	<u><u>8,979,942</u></u>	<u><u>0.75</u></u>

\* *Price reflects the weighted average exercise price.*

No options were granted to the Global Med's Executive Officers during the period ended September 30, 2003. There were no options exercised during the period.

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Directors or Chief Executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors and the Chief Executive (including their spouses and children under the age of 18) had, as at September 30, 2003, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.



## SUBSTANTIAL SHAREHOLDERS

As at September 30, 2003, according to the register of interest in shares and short positions kept by the Company under Section 336 of the SFO, the persons who were interested in 5% or more in the issued share capital of the Company are as follows:

<b>Name</b>	<b>Number of Ordinary Shares</b>	<b>Approximate % of Shareholding</b>
Prime Star Group Co. Ltd.	12,850,400	21.59%
First Pacific International Limited	4,114,984	6.91%

Save as disclosed above, as at September 30, 2003, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

## CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of the Best Practice as set out in the Appendix 14 of the Listing Rules at any time during the six months ended September 30, 2003 except that non-executive directors are not appointed for a specific term but are subject to a retirement by rotation and re-election at annual general meetings in accordance with the articles of association of the Company.

By order of the Board  
**Chan Tong Wan**  
*Managing Director*

Hong Kong, December 29, 2003