



2002/2003

THIRD QUARTERLY REPORT
Sing Pao Media Group Limited

(incorporated in the Cayman Islands with limited liability)



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Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Sing Pao Media Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Sing Pao Media Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 31ST DECEMBER, 2002

The unaudited consolidated results of Sing Pao Media Group Limited (the “Company” or “Sing Pao”) and its subsidiaries (together, “the Group”) for the three months and nine months ended 31st December, 2002, together with the comparative unaudited figures for the corresponding periods in 2001 are as follows:

	Notes	Three months ended 31st December,		Nine months ended 31st December,	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	1	47,089	14,665	138,196	29,483
Cost of sales		<u>(50,734)</u>	<u>(22,920)</u>	<u>(156,035)</u>	<u>(44,159)</u>
Gross loss		(3,645)	(8,255)	(17,839)	(14,676)
Other revenue		1,313	811	3,771	1,717
Advertising and promotion expenses		(4,461)	(2,363)	(14,142)	(4,154)
Administrative expenses		(21,591)	(18,750)	(62,330)	(40,062)
Impairment loss reversed/(recognised) in respect of investments in securities		633	-	(3,900)	-
Cost of streamlining operations		-	(26,601)	-	(30,841)
Impairment loss recognised in respect of goodwill		-	(8,877)	-	(8,877)
Loss from operations	2	<u>(27,751)</u>	<u>(64,035)</u>	<u>(94,440)</u>	<u>(96,893)</u>
Finance costs	3	(1,953)	(1,387)	(7,037)	(4,228)
Gain on disposal of subsidiaries		106	-	106	-
Loss on deemed disposal of associates		(309)	-	(309)	-
Share of results of associates		267	(47)	(232)	(145)
Loss before taxation		<u>(29,640)</u>	<u>(65,469)</u>	<u>(101,912)</u>	<u>(101,266)</u>
Taxation	4	-	-	-	-
Loss before minority interests		<u>(29,640)</u>	<u>(65,469)</u>	<u>(101,912)</u>	<u>(101,266)</u>
Minority interests		-	25	-	25
Loss attributable to shareholders		<u>(29,640)</u>	<u>(65,444)</u>	<u>(101,912)</u>	<u>(101,241)</u>
Loss per share – basic	5	<u>(6.3 cents)</u>	<u>(57.2 cents)</u>	<u>(32.5 cents)</u>	<u>(122.0 cents)</u>

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Notes:

1. Turnover

	Three months ended		Nine months ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Newspapers and magazines advertising income	24,431	5,993	69,996	5,993
Sales of newspapers and magazines	21,830	5,827	66,116	5,827
Advertising and sponsorship	–	1,597	–	10,408
Consultancy services	–	659	159	4,875
Internet website content sales	810	537	1,866	2,194
Sales of goods, net of discounts and allowances	18	52	59	186
	<u>47,089</u>	<u>14,665</u>	<u>138,196</u>	<u>29,483</u>

2. Loss from operations

	Three months ended		Nine months ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:				
Amortisation of intangible assets included in administrative expenses	2,637	2,273	7,904	3,023
Depreciation of property, plant and equipment	5,563	4,345	17,017	13,951

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3. Finance costs

	Three months ended		Nine months ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interests on:				
Shareholders' loan	1,663	1,138	5,535	3,910
Finance leases	290	249	907	318
Loan from a related party	—	—	595	—
	<u>1,953</u>	<u>1,387</u>	<u>7,037</u>	<u>4,228</u>

4. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no estimated assessable profit for both periods. The Group has no estimated assessable profits in other jurisdictions for both periods.

5. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31st December, 2002 is based on the respective unaudited consolidated loss attributable to shareholders of approximately HK\$29,640,000 and HK\$101,912,000 (2001: HK\$65,444,000 and HK\$101,241,000) and the weighted average number of 468,424,181 shares and 314,103,761 shares (2001: 114,389,522 shares and 82,967,243 shares adjusted by rights issues) in issue during the periods.

As required by paragraph 42 of SSAP 5 "Earnings per share", the weighted average number of ordinary shares for the purpose of calculating basic loss per share for 2002 and 2001 has been adjusted for the effect of share consolidation completed on 28th May, 2002.

The calculation of diluted loss per share does not assume the exercise of the Company's outstanding share options and warrants as their exercise would have an anti-dilutive effect on the loss per share.

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6. Movement of reserves

	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Distributable reserve HK\$'000
At 1st April, 2001	123,597	121,914	1	–
Reserve released on disposal of a subsidiary	–	–	(1)	–
Share issue expenses	(5,337)	–	–	–
Exchange differences arising from translation of accounts of overseas operations	–	–	2,773	–
At 31st December, 2001 and 1st April, 2002	118,260	121,914	2,773	–
Capital reduction	(110,000)	–	–	93,215
Rights issue of shares	91,083	–	–	–
Share issue expenses	(2,697)	–	–	–
Reserve released on disposal of subsidiaries	–	–	(106)	–
Exchange differences arising from translation of accounts of overseas operations	–	–	(7)	–
At 31st December, 2002	<u>96,646</u>	<u>121,914</u>	<u>2,660</u>	<u>93,215</u>

INTERIM DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the nine months ended 31st December, 2002 (2001: Nil).

ANALYSIS OF THE GROUP'S PERFORMANCE

The Group's turnover for the period ended 31st December, 2002 was approximately HK\$138.2 million, an increase of approximately 368% as compared to the same period in 2001 of approximately HK\$29.5 million. The significant increase in revenue was mainly generated from advertising income and circulation sales of newspapers and magazines which in aggregate, had contributed to the Group's turnover of approximately HK\$136.1 million for the period under review.

Loss from operations decreased from approximately HK\$96.9 million for the last corresponding period to approximately HK\$94.4 million for the current period. Loss attributable to shareholders for the nine months ended 31st December, 2002 increased from approximately HK\$101.2 million for the last corresponding period to approximately HK\$101.9 million in the current period, an increase of approximately 1%.

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The Group has made continued efforts to tighten its cost control on operations, gross loss for the three months ended 31st December, 2002 was decreased to approximately HK\$3.6 million as compared with approximately HK\$8.3 million for the three months ended 31st December, 2001. Similarly, loss from operations showed a significant decrease from approximately HK\$64 million for the three months ended 31st December, 2001 to approximately HK\$27.8 million for the current period. Overall, the loss for the three months ended 31st December, 2002 was reduced from approximately HK\$65.4 million for the three months ended 31st December, 2001 to approximately HK\$29.6 million, representing a decrease of approximately 55%.

OPERATIONS REVIEW

Sing Pao Daily News

Despite the sluggish economy and shrunk advertising budgets, the Group was able to achieve a reasonable market share in terms of advertising revenue during this period.

Two seasonal superbly produced publications, i.e. “Winnie’s Winter Gourmet Recipe Book” and “Christmas Magazine” were issued and distributed through redemption by readers. Furthermore, specific marketing activities were run during this period, i.e. “Bo Bo Fan Club Gathering” and “My Lovely Teddy Bear Drawing Competition” with an aim to tap the underdeveloped target segments. The latter had successfully aroused keen interest amongst the young parents and attracted more than 600 primary school students to participate in the competition. Other events such as Horse Riding Trip and Free Tour to Junjing Golf Homeland were part of the Sing Pao Horse Racing Fan Club activity highlights.

Our commitment to strive for maximum noise level and quality upgrading over the past months had won recognition for the Group in the areas of television advertising and print publishing. The TV commercial for our corporate campaign was named one of the finalists to run for the “The Best TV Commercial Award” at the CCTV Advertising Festival 2002. In addition, the Group had also been awarded a merit certificate for newspaper printing at The 14th Hong Kong Print Awards 2002.

Magazine business

“WIDE ANGLE” magazine

Despite the increasingly intensified competition in the PRC magazine business, “WIDE ANGLE”, a high standard political and economic monthly journal has continued to maintain its present status as a dominant player in the PRC market. The Group will continue to utilise its sales and market efforts for the expansion of “WIDE ANGLE” regional coverage in the PRC.

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Other magazines

Due to the persistence of the sluggish economy and the declining advertising revenue, the Group has streamlined its magazine business by disposing the publishing rights of its magazines: "CUP", "AV" and "LIFE MONTHLY", so as to reduce its operation cost.

News and Entertainment Websites

Since the economy downturn, the Group has made continuous efforts to streamline operations and increase operational efficiency. The website business under the domain name "*singpao.com*" continued to achieve satisfactory growth in both average daily page view and unique visitors. At the end of the period under review, average daily page view of *singpao.com* increased to over 1.2 million and had recorded approximately 580,000 unique visitors.

The Group has also dedicated its efforts to combine news content with state-of-the-art technology so as to cater for the increasing needs of internet users around the globe. The completed version of Personal Digital Assistant ("PDA") for *singpao.com* has been launched.

In January 2003, to reduce operating costs, the Group has entered into a sale and purchase agreement with an independent third party whereby the Group disposed of its other website business (including certain fixed assets) under the domain name "*stareastnet.com*" which has always been loss making. The Group has continued to provide entertainment news to the internet user under the domain name "*singpao.com*".

Corporate development

In November, 2002, the board of directors was informed by the Company's substantial shareholders ("Vendors") that they have entered into the Sale and Purchase Agreement ("S&P Agreement") with Sun Media Group Holdings Limited ("Sun Media"), pursuant to which the Vendors have agreed to sell and/or assign and Sun Media has agreed to purchase and/or accept the assignment of (i) approximately 55% of the issued share capital of the Company and such consideration would be satisfied upon completion of the S&P Agreement ("Completion") by the issue of new Sun Media shares to the Vendors in the ratio of 6 new Sun Media shares for every Sing Pao share; (ii) approximately 46% of the outstanding warrants of the Company for a total consideration of HK\$3.00 to be satisfied in cash upon Completion; and (iii) the rights, title and benefits in and of the shareholders' loan owed by the Group to the Creditors (as defined in the circular dated 30th December, 2002) for the amount of HK\$40,000,000 ("Sale Loans") and the consideration would be satisfied by the issue and allotment of 400,000,000 new Sun Media shares to the Vendors at an issue price of HK\$0.10 per share (subject to adjustment) at the expiry of two calendar years from the date of Completion.

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The Company would enter into a deed of settlement (“Loan Settlement”) with Sing Pao Newspaper Company Limited and the Creditors, pursuant to which the Creditors would, with effect immediately prior to Completion, compromise and settle the outstanding indebtedness of the Company and Sing Pao Newspaper Company Limited to the Creditors as at Completion to HK\$60,000,000 (“Reduced Loan”) with the annual interest rate thereon lowered to the prime rate. The Reduced Loan together with the interest accrued should only be due and repayable on the date falling on the expiry of 30 calendar months after the year end of any financial year of the Company after the Completion in respect of which the Company declares a profit after taxation in its audited accounts provided that such payment date should not fall after the twentieth anniversary of the date of Completion.

Each of the Creditors would also enter into a deed of assignment with the Company, Sing Pao Newspaper Company Limited and Sun Media (or its nominee) upon Completion, to give effect to the assignment of the Sale Loan to Sun Media (“Assignment Arrangements”). The remaining balance of the Reduced Loan of HK\$20,000,000 would remain in the books of the Company as unsecured borrowings. Under the S&P Agreement, the Creditors would assign the Sale Loans to Sun Media and the consideration would be satisfied by the issue and allotment of 400,000,000 new Sun Media shares at an issue price of HK\$0.10 per share (subject to adjustment) at the expiry of two calendar years from the date of Completion.

An ordinary resolution to approve the Loan Settlement and Assignment Arrangements was passed at the extraordinary general meeting on 16th January, 2003 and one of the conditions set out in the S&P Agreement was fulfilled. Completion of the S&P Agreement would still be subject to a number of conditions which would be expected to fulfill on or before 30th January, 2003.

Upon Completion, Sun Media would own approximately 55% of the issued share capital of and approximately 46% of the outstanding warrants in the Company respectively. Accordingly, pursuant to Rule 26 of the Hong Kong Codes on Takeovers and Mergers, Sun Media would make unconditional mandatory general offers for all issued shares and outstanding securities of the Company other than those securities already owned or agreed to be acquired by Sun Media or parties acting in concert. The offers would be made on the basis of (i) 6 new Sun Media shares for each Sing Pao share, or a cash alternative of HK\$0.36 per Sing Pao share; and (ii) HK\$0.0001 for each Sing Pao option and Sing Pao warrant.

Details of the above transactions have been set out in the Company’s circular dated 30th December, 2002.

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PROSPECTS

With the continued sluggish local economy, the newspaper, magazine and website businesses have undergone a difficult operation and an increasingly intensified competition. The Group will continue to carry out various measures to enhance contents development and enrichment, quality upgrading and marketing campaigns, and increase operational efficiencies. It is expected that such strategies will enable the Group to generate income from advertising revenue and newspaper publication and reduce the operation cost.

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2002, the interests of the directors and their respective associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") were as follows:

Interest in shares in the Company

Name of director	Personal interests	Number of shares held			Other interests
		Family interests	Corporate interests		
Tam Wing Lun, Alan	–	–	4,357,500 (<i>Note</i>)	–	
Chan Pak Cheung, Natalis	–	–	4,357,500 (<i>Note</i>)	–	

Note: These shares are beneficially owned by Gold Miracles Limited, a company in which the relevant directors holds one third of its issued share capital. The relevant directors are therefore deemed to be interested in 4,357,500 shares in the Company.

Save as disclosed above, as at 31st December, 2002, neither of the directors nor the chief executive of the Company or their associates had any personal, family, corporate or other interests in the shares in the Company or any of its associated corporations as defined in the SDI Ordinance or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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Directors' rights to acquire shares

Pursuant to the Pre-IPO Share Option Scheme and the Employee Share Option Scheme as described below, as at 31st December, 2002, the directors of the Company had share options granted by the Company to subscribe for shares in the Company as follows:

Name of directors	Date of grant	Option period	Exercise price per share HK\$ (Note 1)	Number of underlying shares comprised in the options		
				Outstanding as at 1.4.2002 (Note 1)	Lapsed during the period (Note 2)	Outstanding as at 31.12.2002
Tam Wing Lun, Alan	26.5.2000	26.5.2000 to 25.5.2005	7.18	3,515,625	(3,515,625)	—
Wong Kun To	26.5.2000	26.5.2000 to 25.5.2005	7.18	3,515,625	(3,515,625)	—
	10.1.2001	10.1.2001 to 9.1.2006	6.70	1,687,500	(1,687,500)	—
Chan Pak Cheung, Natalis	26.5.2000	26.5.2000 to 25.5.2005	7.18	3,515,625	(3,515,625)	—
Chan Kong Sang, Jackie	26.5.2000	26.5.2000 to 25.5.2005	7.18	1,687,500	(1,687,500)	—
Masanori Suzuki	26.5.2000	26.5.2000 to 25.5.2005	7.18	281,250	(281,250)	—
Bradford Allen	26.5.2000	26.5.2000 to 25.5.2005	7.18	281,250	(281,250)	—
Dominic Lai	26.5.2000	26.5.2000 to 25.5.2005	7.18	281,250	(281,250)	—
Vincent Ting Kau Cheung	26.5.2000	26.5.2000 to 25.5.2005	7.18	281,250	(281,250)	—

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Notes:

- (1) According to the respective terms of the Pre-IPO Share Option Scheme and the Employee Share Option Scheme of the Company, the subscription prices of the shares and the number of shares to be issued on the exercise of the outstanding share options have been adjusted in respect of the rights issue with effect from 17th September, 2002 ("Rights Issue") as disclosed in the Company's circular and prospectus dated 12th August, 2002 and 28th August, 2002 respectively.
- (2) All share options were surrendered voluntarily in December, 2002.

The options are exercisable in accordance with the terms of the Pre-IPO Share Option Scheme and the Employee Share Option Scheme at any time during a period commencing 1 year after the date of grant and ending 5 years after the date of grant in accordance with the following schedule:

Period since date of grant	Percentage of shares comprised in options which become exercisable
Year 1	Zero
Year 2	up to 25%
Year 3	up to 50% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
Year 4	up to 75% (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary)
Year 5	all shares in respect of which the options have not been previously exercised

None of the above options has been exercised during the nine months ended 31st December, 2002.

Save as disclosed above, at no time during the period was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors, their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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PRE-IPO SHARE OPTION SCHEME AND EMPLOYEE SHARE OPTION SCHEME

As at 31st December, 2002, options comprising an aggregate of 2,925,000 underlying shares (adjusted by the Rights Issue) granted pursuant to the Pre-IPO Share Option Scheme and the Employee Share Option Scheme were outstanding. All of these options are subject to the same limitations on the timing of exercise as detailed above. A summary of the major terms of each of the Pre-IPO Share Option Scheme and the Employee Share Option Scheme is set out on pages 239 to 245 of the Company's prospectus dated 23rd May, 2000.

Pre-IPO Share Option Scheme

As at 31st December, 2002, options comprising an aggregate of 1,940,625 underlying shares (adjusted by the Rights Issue) granted on 26th May, 2000 at an initial exercise price of HK\$1.18 each, adjusted to HK\$7.18 per share taken into account of the Rights Issue, were outstanding. The option period is from 26th May, 2000 to 25th May, 2005. These options were granted to the following categories of grantees:

Categories of grantees	Total no. of grantees	No. of underlying shares comprised in the options
Contracted celebrity	1	1,687,500
Employee of the Group	1	<u>253,125</u>
Total		<u><u>1,940,625</u></u>

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Employee Share Option Scheme

As at 31st December, 2002, options comprising an aggregate of 984,375 underlying shares (adjusted by the Rights Issue) granted on 5th September, 2000 and 10th January, 2001 were outstanding. Any option granted shall lapse when the relevant grantee ceases to be employed by the Group. Details of the outstanding options are as follows:

Categories of grantees	Total no. of grantees	No. of underlying shares comprised in the options	Exercise price per share HK\$	Option period
Employee of the Group	1	843,750	10.65	5.9.2000 to 4.9.2005
Employee of the Group	1	<u>140,625</u>	6.70	10.1.2001 to 9.1.2006
Total		<u><u>984,375</u></u>		

The Employee Share Option Scheme was terminated on 15th January, 2002 and was replaced by a new share option scheme (the "New Share Option Scheme").

NEW SHARE OPTION SCHEME

On 15th January, 2002, the Company adopted the New Share Option Scheme under which the board of directors of the Company may at its discretion offer to any director (including non-executive director), executive, employee and contracted celebrity (the "Eligible Persons") of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme and Chapter 23 of the GEM Listing Rules. The principal purposes of the New Share Option Scheme are to recognise the significant contributions of the Eligible Persons to the growth of the Group. The New Share Option Scheme commenced on 15th January, 2002 and will end on the day immediately prior to the tenth anniversary of 15th January, 2002. No options were granted up to the date of this report.

The Employee Share Option Scheme was simultaneously terminated but the options which have been granted during the life of the Employee Share Option Scheme shall continue to be exercisable in accordance with their terms of issue and, in all other respects, the provisions of the Employee Share Option Scheme shall remain in full force and effect.

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Save as disclosed, no option pursuant to the Pre-IPO Share Option Scheme, the Employee Share Option Scheme and the New Share Option Scheme had been exercised, cancelled or lapsed during the nine months ended 31st December, 2002.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests being 10% or more in the Company's issued share capital:

Name of shareholder	Number of shares held	Approximate percentage of shareholding
Hanny Holdings Limited ⁽¹⁾	79,470,000	16.97%
Hanny Magnetics (B.V.I.) Limited ⁽¹⁾	79,470,000	16.97%
Genius Ideas Limited ⁽¹⁾	79,470,000	16.97%
Star East Holdings Limited ⁽²⁾	86,961,250	18.56%
Value Focus Limited ⁽²⁾	82,500,000	17.61%
Cyber Hero Limited ⁽²⁾	82,500,000	17.61%
China Strategic Holdings Limited ⁽³⁾	92,253,100	19.69%
China Strategic (B.V.I.) Limited ⁽³⁾	85,750,000	18.31%
Glory Dynamic Limited ⁽³⁾	85,750,000	18.31%

Notes:

- (1) Genius Ideas Limited is a wholly-owned subsidiary of Hanny Magnetics (B.V.I.) Limited which is, in turn, a wholly-owned subsidiary of Hanny Holdings Limited. Hanny Holdings Limited and Hanny Magnetics (B.V.I.) Limited are deemed to be interested in an aggregate of 79,470,000 shares in the Company.
- (2) Cyber Hero Limited is a wholly-owned subsidiary of Value Focus Limited which is, in turn, a wholly-owned subsidiary of Star East Holdings Limited. Star East Holdings Limited through Star East (B.V.I.) Limited, a wholly-owned subsidiary, holds another 4,461,250 shares in the Company. Accordingly, Star East Holdings Limited is deemed to be interested in an aggregate of 86,961,250 shares in the Company.
- (3) Glory Dynamic Limited is a wholly-owned subsidiary of China Strategic (B.V.I.) Limited which is, in turn, a wholly-owned subsidiary of China Strategic Holdings Limited. China Strategic Holdings Limited through China Pharmaceutical Industrial Limited, a non wholly-owned subsidiary and Wealthy Gain Limited, a wholly-owned subsidiary, holds another 617,400 shares and 5,885,700 shares in the Company, respectively. Accordingly, China Strategic Holdings Limited is deemed to be interested in an aggregate of 92,253,100 shares in the Company.

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Save as disclosed above, the directors are not aware of any other person having an interest in shares representing 10% or more in the Company's issued share capital as at 31st December, 2002.

SPONSOR'S INTERESTS

To the best knowledge of the Company's sponsor, BNP Paribas Peregrine Capital Limited ("BNP Paribas" or the "Sponsor"), as at 31st December, 2002 neither the Sponsor nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which causes or may cause significant competition with the business of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the nine months ended 31st December, 2002.

AUDIT COMMITTEE

The audit committee has three members comprising the three independent non-executive directors, namely Mr. Bradford Allen, Mr. Dominic Lai and Mr. Vincent Ting Kau Cheung.

The primary duties of the audit committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comment thereon to the board of directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31st December, 2002.

By Order of the Board
Tam Wing Lun, Alan
Chairman

Hong Kong, 21st January, 2003