

**YUGANG**

**YUGANG**

**YUGANG INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**INTERIM REPORT**  
**2001**

## RESULTS

The Board of Directors (the "Board") of Yugang International Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001 together with the unaudited comparative figures for the corresponding period in 2000 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2001

	Notes	Six months ended 30 June 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
TURNOVER		<b>235,239</b>	352,141
Cost of sales		<b>(194,246)</b>	(302,227)
Gross profit		<b>40,993</b>	49,914
Other revenue		<b>32,768</b>	41,793
Selling and distribution costs		<b>(5,948)</b>	(9,035)
Administrative expenses		<b>(34,399)</b>	(28,546)
Other operating income/(expenses), net	3	<b>46,969</b>	(23,073)
PROFIT FROM OPERATING ACTIVITIES		<b>80,383</b>	31,053
Finance costs	4	<b>(6,060)</b>	(1,337)
Share of profit of a jointly-controlled entity		<b>239</b>	—
Share of profits of associates		<b>10,491</b>	—
PROFIT BEFORE TAX		<b>85,053</b>	29,716
Tax	6	<b>(2,602)</b>	(2,830)
PROFIT AFTER TAX		<b>82,451</b>	26,886
Minority interests		<b>(10,957)</b>	(11,772)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<b>71,494</b>	15,114
Dividend		—	—
EARNINGS PER SHARE	8	<b>0.85 HK cents</b>	0.20 HK cents
Basic		<b>0.85 HK cents</b>	0.20 HK cents
Diluted		<b>0.75 HK cents</b>	0.19 HK cents

## CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30 JUNE 2001

	<i>Note</i>	<b>Six months ended 30 June 2001 (Unaudited) HK\$'000</b>
Capital reserve arising from issue of shares by a subsidiary upon the exercise of warrants	13	<u>(364)</u>
Net losses not recognised in the profit and loss account		<b>(364)</b>
Net profit for the period attributable to shareholders		<u><b>71,494</b></u>
Total recognised gains and losses		<u><b><u>71,130</u></b></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

### 30 JUNE 2001

	Notes	<b>30 June 2001 (Unaudited) HK\$'000</b>	31 December 2000 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>190,376</b>	183,212
Investment properties		<b>6,300</b>	237,798
Interest in a jointly-controlled entity		<b>9,985</b>	9,867
Interests in associates		<b>619,792</b>	615,525
Unlisted investments		<b>6,940</b>	6,940
Other investments		<b>119,895</b>	24,640
		<hr/> <b>953,288</b> <hr/>	<hr/> 1,077,982 <hr/>
<b>CURRENT ASSETS</b>			
Other investments		<b>184,998</b>	194,908
Stocks		<b>43,539</b>	40,023
Tax recoverable		<b>21</b>	165
Loans receivable		<b>367,000</b>	261,000
Other debtors, deposits and prepayments		<b>237,114</b>	18,559
Trade debtors	11	<b>75,758</b>	68,500
Bills receivable		<b>6,081</b>	33,921
Pledged time deposits		<b>7,858</b>	7,676
Time deposits		<b>23,881</b>	400,915
Cash and bank balances		<b>508,573</b>	247,749
		<hr/> <b>1,454,823</b> <hr/>	<hr/> 1,273,416 <hr/>

**CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)****30 JUNE 2001**

	Notes	<b>30 June 2001 (Unaudited) HK\$'000</b>	31 December 2000 (Audited) HK\$'000
<b>CURRENT LIABILITIES</b>			
Bills payable and trust receipt loans, secured		<b>243</b>	24,271
Trade creditors	12	<b>20,050</b>	18,469
Tax payable		<b>68,587</b>	64,716
Other payables		<b>2,867</b>	2,856
Accrued expenses		<b>24,274</b>	26,210
Customers' deposits received		<b>7,070</b>	7,829
Current portion of obligations under hire purchase contracts		<b>15</b>	15
		<b>123,106</b>	144,366
<b>NET CURRENT ASSETS</b>		<b>1,331,717</b>	1,129,050
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,285,005</b>	2,207,032
<b>NON-CURRENT LIABILITIES</b>			
Long term portion of obligations under hire purchase contracts		<b>27</b>	35
Deferred tax		<b>1,455</b>	1,455
Convertible notes		<b>219,700</b>	219,700
		<b>221,182</b>	221,190
<b>MINORITY INTERESTS</b>		<b>150,704</b>	143,853
		<b>1,913,119</b>	1,841,989
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>84,533</b>	845,332
Reserves	13	<b>1,828,586</b>	996,657
		<b>1,913,119</b>	1,841,989

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2001**

	Six months ended 30 June 2001 (Unaudited) <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(9,055)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	22,070
TAX REFUNDED	2,081
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(131,298)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(116,202)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>(8)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(116,210)
Cash and cash equivalents at beginning of period	<u>648,664</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>532,454</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	508,573
Time deposits	<u>23,881</u>
	<u><u>532,454</u></u>

## NOTES TO INTERIM FINANCIAL STATEMENTS

30 JUNE 2001

### 1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountant ("HKSA"), except that the comparative figures of the condensed consolidated cash flow statement and condensed consolidated statement of recognised gains and losses have not been presented as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong .

In prior years, dividends proposed or declared after the balance sheet date in respect of an accounting period were recognised as a liability at the balance sheet date. With effect from 1 January 2001, in order to comply with SSAP 9 (revised) "Events after the balance sheet date", issued by the HKSA, the Group does not recognise a liability for dividends in the accounting period in which they are declared or proposed and approved by shareholders. The new accounting policy has been adopted retrospectively, with the retained profits as at 1 January 2000 adjusted for the amounts relating to final dividend declared for the year ended 31 December 1999. There is no effect on the balance sheet as at 31 December 2000 with the above change in accounting policy.

Except the above change in accounting policy, the accounting policies and basis of presentation used in the preparation of the interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2000.

## 2. SEGMENTAL INFORMATION

An analysis by principal activity and geographical area of operations of the Group's turnover and contribution to profit from operating activities, are summarised as follows:

	Turnover		Contribution to profit from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>By activity:</b>				
Trading of automobile parts	<b>116,482</b>	228,595	<b>4,560</b>	27,408
Trading of metal and plastic materials	—	909	—	18
Manufacturing and sale of packaging products	<b>118,493</b>	122,273	<b>28,590</b>	26,336
Rental income	<b>264</b>	364	<b>264</b>	364
	<b><u>235,239</u></b>	<b><u>352,141</u></b>	<b><u>33,414</u></b>	<u>54,126</u>
Write-back of provision for doubtful debts			—	26,000
Unrealised holding gain/(loss) on other investments			<b>61,997</b>	(42,526)
Loss on disposal of other investments			<b>(5,028)</b>	(6,547)
Provision for impairment in value of convertible notes			<b>(10,000)</b>	—
Profit from operating activities			<b><u>80,383</u></b>	<u>31,053</u>



	Turnover		Contribution to profit from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2001 (Unaudited) <i>HK\$'000</i>	2000 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>	2000 (Unaudited) <i>HK\$'000</i>
<b>By geographical area:</b>				
Hong Kong	<b>40,332</b>	35,549	<b>56,886</b>	(41,049)
Mainland China	<b>116,482</b>	229,501	<b>4,560</b>	53,426
North and South Americas	<b>31,016</b>	43,479	<b>7,490</b>	9,324
Europe	<b>38,808</b>	39,349	<b>9,371</b>	8,438
Others	<b>8,601</b>	4,263	<b>2,076</b>	914
	<b>235,239</b>	352,141	<b>80,383</b>	31,053

### 3. OTHER OPERATING INCOME/(EXPENSES), NET

	For the six months ended 30 June	
	2001 (Unaudited) <i>HK\$'000</i>	2000 (Unaudited) <i>HK\$'000</i>
Write-back of provision for doubtful debts	—	26,000
Unrealised holding gain/(loss) on other investments	<b>61,997</b>	(42,526)
Loss on disposal of other investments	<b>(5,028)</b>	(6,547)
Provision for impairment in value of convertible notes	<b>(10,000)</b>	—
	<b>46,969</b>	(23,073)

#### 4. FINANCE COSTS

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within one year	<b>610</b>	1,337
Interest on convertible notes	<b>5,447</b>	—
Hire purchase interest	<b>3</b>	—
	<b><u>6,060</u></b>	<u>1,337</u>

#### 5. DEPRECIATION

During the period, depreciation of approximately HK\$4,341,000 (2000:HK\$4,176,000) and HK\$3,000 (2000: Nil) were charged to the profit and loss account in respect of the Group's owned assets and assets held under hire purchase contracts, respectively.

#### 6. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere in the People's Republic of China have been calculated at the applicable rates of tax prevailing in the areas in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Group:</b>		
People's Republic of China:		
Hong Kong	<b>1,934</b>	2,830
Elsewhere	<b>—</b>	—
	<b><u>1,934</u></b>	<u>2,830</u>
Associates	<b>643</b>	—
Jointly-controlled entity	<b>25</b>	—
	<b><u>2,602</u></b>	<u>2,830</u>

There were no significant potential deferred tax liabilities for which provision has not been made.

## 7. DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th June 2001 (2000: nil).

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$71,494,000 (2000: HK\$15,114,000) and the weighted average number of 8,453,321,700 (2000: 7,479,461,770) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on:

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
<u>Earnings</u>		
Net profit attributable to shareholders used in basic earnings per share calculation	<b>71,494</b>	15,114
Interest saving on exercise of convertible notes	<b>4,550</b>	—
Net profit attributable to shareholders used in diluted earnings per share calculation	<b><u>76,044</u></b>	<b><u>15,114</u></b>
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	<b>8,453,321,700</b>	7,479,461,770
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	—	18,333,036
Assumed issued at no consideration on deemed exercise of all warrants outstanding during the period	—	532,835,658
Assumed issued at no consideration on deemed exercise of all convertible notes outstanding during the period	<b>1,690,000,000</b>	—
Weighted average number of ordinary shares used in diluted earnings per share calculation	<b><u>10,143,321,700</u></b>	<b><u>8,030,630,464</u></b>

## 9. INVESTMENT PROPERTY

During the period, the investment property was transferred to leasehold properties at its carrying value of HK\$1,100,000 as the property was put into use in the Group's business.

## 10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$11,716,000 (year ended 31 December 2000 HK\$17,936,000) on the acquisition of property, plant and equipment.

## 11. TRADE DEBTORS

The aged analysis of trade debtors at the balance sheet date was as follows:

	<b>Group</b>	
	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
0 - 30 days	<b>18,539</b>	22,575
31 - 60 days	<b>9,351</b>	5,925
More than 60 days	<b>47,868</b>	40,000
	<hr/> <b>75,758</b> <hr/>	<hr/> 68,500 <hr/>

The Group allows an average credit period of 60 days to its customers.

## 12. TRADE CREDITORS

The aged analysis of trade creditors at the balance sheet date was as follows:

	<b>Group</b>	
	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
0 - 30 days	<b>6,593</b>	6,843
31 - 60 days	<b>5,037</b>	4,540
More than 60 days	<b>8,420</b>	7,086
	<hr/> <b>20,050</b> <hr/>	<hr/> 18,469 <hr/>

**13. RESERVES**

	Retained profits	Share premium	Capital reserve	Contributed surplus	Warrant subscription reserve	Exchange fluctuation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Group</b>							
At 1 January 2001	58,891	840,629	88,716	—	8,364	57	996,657
Retained profits for the period	71,494	—	—	—	—	—	71,494
Reduction in par value of shares	—	—	—	760,799	—	—	760,799
Arising from issue of shares by a subsidiary upon the exercise of warrants	—	—	(364)	—	—	—	(364)
At 30 June 2001	<u>130,385</u>	<u>840,629</u>	<u>88,352</u>	<u>760,799</u>	<u>8,364</u>	<u>57</u>	<u>1,828,586</u>

**14. COMMITMENTS**

At the balance sheet date, the Group had capital commitments in respect of purchases of fixed assets as follows:

	<b>Group</b>	
	<b>30 June 2001 (Unaudited) HK\$'000</b>	<b>31 December 2000 (Audited) HK\$'000</b>
Authorised and contracted for	<b>2,799</b>	9,730
Authorised, but not contracted for	<b>415</b>	1,875
	<u><b>3,214</b></u>	<u>11,605</u>

## 15. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	<b>Group</b>	
	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Bills receivable discounted with recourse	<b>51,997</b>	93,360

- (b) Certain subsidiaries of Qualipak International, a subsidiary of the Company, are in discussions with the Hong Kong Inland Revenue Department (the "IRD") regarding their prior year tax computations. The IRD is presently requesting further information and explanations from these subsidiaries. In the opinion of the directors, these subsidiaries have prepared their prior year tax computations on a proper basis.

Pursuant to the Deed of Indemnity dated 14 April 1999 made between Chuang Hing Limited ("CHL"), China United Holdings Limited ("CUHL") and Qualipak International (as set out in the paragraph headed "Other Information" in Appendix 5 of Qualipak International's prospectus dated 15 April 1999), CHL and CUHL agreed with the Qualipak Group that CHL and CUHL will jointly and severally indemnify each of the companies in the Qualipak Group against tax falling due by any of the companies in the Qualipak Group resulting from profits or gains earned or accrued on or before 27 April 1999.

After taking into consideration the foregoing, no provision for any additional tax liabilities is considered necessary by the directors.

## 16. RELATED PARTY TRANSACTIONS

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

		<b>Group</b>	
	<i>Notes</i>	<b>2001</b>	2000
		<b>HK\$'000</b>	HK\$'000
Rental expenses for office premises paid to a substantial shareholder	(i)	<b>779</b>	801
Rental income for office premises received from an associate	(ii)	<b>443</b>	—

Notes:

- (i) The rental expenses were charged at cost, based on the floor area occupied by the Group in respect of the office premises rented by Chongqing Industrial Limited from an independent third party. Cheung Chung Kiu, a director of the Company, has beneficial interests in Chongqing Industrial Limited, which is a substantial shareholder of the Company. This transaction also constituted a connected transaction for the Company under the Hong Kong Listing Rules.
- (ii) The rental income was charged at cost based on the floor area occupied by the associate in respect of the office premises rented from Chongqing Industrial Limited.

## 17. SUBSEQUENT EVENTS

- (a) On 3 July 2001, a 51.93%-owned subsidiary, Qualipak International Holdings Limited, purchased a convertible note of HK\$25,000,000 issued by a company listed in the Stock Exchange of Hong Kong.
- (b) On 18 July 2001, the Company issued 1,312,586,000 warrants at an issue price of HK\$0.02 each, conferring rights to the holders to subscribe up to HK\$118,132,740 in aggregate for new shares of the Company at HK\$0.01 each, equivalent to the aggregate subscription price for a total of 1,312,586,000 shares on the basis of an initial subscription price of HK\$0.09 per share (subject to adjustment), between 18 July 2001 and 18 July 2003.
- (c) On 31 July 2001, the Company issued convertible notes (the "Notes") of HK\$100,000,000, with maturity date on 30 July 2004 and bear interest at the rate of 5% per annum, to Timmex Investment Limited. Timmex Investment Limited is a company incorporated in the British Virgin Islands and 100% beneficially owned by Cheung Chung Kiu, a director of the Company. The Notes confer rights to be converted into the Company's shares at a conversion price of HK\$0.10 per share during the period from the date of its issue up to the first anniversary of the date of its issue, HK\$0.11 per share for the period from the date immediately following the first anniversary of the date of its issue up to the second anniversary of the date of its issue and HK\$0.12 per Share for the period from the date immediately following the second anniversary of the date of its issue up to the third anniversary of the date of its issue (subject to adjustment).

## 18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the board of directors on 7th September 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group's profit attributable to shareholders for the six months ended 30th June 2001 is HK\$71,494,000, representing a 373% increase from the last corresponding period. The Group's consolidated turnover for the period is HK\$235 million, a decline of 33.2% from the last corresponding period. The decline in turnover was mainly attributable to sluggishness of trading activities of automobile parts, the gross margin of which was relatively lower. In view of difficult situation in the trading of automobile parts, the Group has successfully widened its profit base and improved its net profit through diversification into the packaging business which is carried on by a listed subsidiary, Qualipak International Holdings Ltd ("Qualipak"). Qualipak encompasses manufacturing and sale of packaging products with stable growth and relatively higher gross margin.

The Group's share of profit of associates for the period is HK\$10,491,000 (2000: nil). It is attributable to the share of operating profit for the six months ended 30th June 2001 of Prestige Properties Holdings Ltd ("Prestige"), a listed company in Hong Kong. Prestige is engaging in property investment, property development and investment holding and has become an associate of the Group since an acquisition of 273,000,000 shares by the Group in September last year.

In March 2001, Prestige further diversified into an infrastructure business through an acquisition of 51,755,924 shares of The Cross-Harbour (Holdings) Ltd ("Cross Harbour"), a listed company in Hong Kong. The major asset of Cross Harbour is a 37 per cent equity interest in Western Harbour Tunnel Co. Ltd, a company holding an entire interest in Western Harbour tunnel and receiving a steady stream of toll revenue. This acquisition will provide Prestige with a stable stream of cash and income in the foreseeable future as well as our Group with future economic benefit accordingly.

### PROSPECT

The Group has virtually adopted diversification strategies and continues to benefit from the contribution to the Group's net profit from investment in subsidiaries and associate companies. The diversification of Prestige into an infrastructure business that is carried on by Cross Harbour not only strengthened profit base of Prestige but also increased contribution to the Group's net profit through the channel of Prestige.



The Group will continue to pursue diversification strategies to expand its business. Since then, the Group's income base has successfully been strengthened with a steady stream of income generated from the packaging business of Qualipak, properties rental business of Prestige as well as toll revenue of Cross Harbour. The Group will continue to explore business opportunities to strengthen its profit base in strategic acquisition of equity interests in Hong Kong or abroad.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June 2001, the Group's cash and cash equivalent was HK\$532 million and there were sufficient unutilised lines of credit available from financial institutions. The gearing ratio, defined as long-term liabilities to shareholder's fund, was 11.6%. The Group's working capital ratio was increased to 11.8 and indicated the working capital is supporting the Group's operation.

The Group had no bank borrowings as at 30th June, 2001 and the Group's contingent liabilities for bills receivable discounted with recourse were HK\$52 million.

Whilst sales of the Group mainly denominated in Hong Kong and US dollars, purchases of raw materials are majority in Hong Kong dollars. Most bank deposits are also maintained in Hong Kong dollars and US dollars. Hence, the Group's exposure to foreign exchange risk is minimal.

## **CAPITAL STRUCTURE**

In March 2001, the par value of the Company's share was reduced from HK\$0.10 to HK\$0.01 each, by the cancellation of HK\$0.09 and the credit arising from this capital reduction was transferred to the contributed surplus account of the Company.

As at 30th June 2001, the Group had an outstanding convertible note of HK\$219,700,000 which is unsecured and bears interest at 5% per annum, payable annually in arrears and will be due for redemption in September 2002.

On 18th July and 31st July 2001, the Company placed new issues of 1,312,586,000 warrants at an issue price of HK\$0.02 each and issued convertible notes of

HK\$100,000,000 with maturity on 30th July, 2004, respectively. The total net proceeds of approximately HK\$124.3 million will be used as working capital for the Group and to further diversify the Company's business.

## **MATERIAL DISPOSAL OF SUBSIDIARIES**

On 12th April 2001, the Group disposed of its entire equity interest in Yukon Agents Limited, a wholly-owned subsidiary, for a cash consideration of HK\$230,398,000. The principal asset of Yukon Agents Limited is an investment property situated in the People's Republic of China.

## **PLEDGE OF ASSETS**

As at 30th June 2001, the Group's banking facilities were secured by a pledge of its leasehold properties and investment properties to the extent of approximately HK\$83,876,000 and time deposits of HK\$7,858,000.

## **EMPLOYEE**

As at 30th June 2001, the Group employed a total of 88 employees in Hong Kong and a workforce of 3,200 in the PRC.

Staff remuneration is reviewed by the Group from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefits including medical insurance, contributions to staff's provident fund and discretionary training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

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

As at 30 June 2001, the interests of the directors and chief executives and their associates in the securities of the Company and its associated corporation, shown in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance

(the “SDI Ordinance”) or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(i) Interests in the Company’s securities

<b>Name</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>
Cheung Chung Kiu	Corporate ( <i>note 1</i> )	<b>3,194,434,684</b>
	Personal	<b>53,320,000</b>
Yuen Wing Shing	Personal	<b>16,000,000</b>
Lam Hiu Lo	Personal	<b>38,600,000</b>
Liang Kang	Personal	<b>16,184,000</b>
Zhang Qing Xin	Personal	<b>13,600,000</b>

(ii) Interests in Chongqing Industrial Limited

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares held</b>
Cheung Chung Kiu	Corporate ( <i>note 2</i> )	<b>1,857,143</b>
	Personal	<b>1,000,000</b>

(iii) Interests in Qualipak International Holdings Limited, a listed subsidiary of the Company

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares held</b>
Lee Ka Sze, Carmelo	Family	<b>1,000,000</b>

Notes:

- (1) The voting rights of these shares are exercisable by Chongqing Industrial Limited. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing Industrial Limited, respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Cheung Chung Kiu and his associates.

- (2) Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited own 857,143, 142,857 and 857,143 shares, respectively, in Chongqing Industrial Limited.

Other than certain nominee shares in subsidiaries held by directors in trust for the companies in the Group, no director held an interest in the share capital of the Company's other subsidiaries during the period.

The interests of the directors in the share options of the Company are separately disclosed in the section "Grant of Directors' rights to acquire shares by the Company" below.

Save as disclosed above, none of the directors or the chief executive or their associates had any interest in the share capital of the Company and its associated corporations recorded in the register required to be kept under Section 29 of the SDI Ordinance or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## GRANT OF DIRECTORS' RIGHTS TO ACQUIRE SHARES BY THE COMPANY

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

<b>Name</b>	<b>Number of share options outstanding at 30 June 2001</b>
Cheung Chung Kiu	<b>10,000,000</b>
Yuen Wing Shing	<b>8,000,000</b>
Lam Hiu Lo	<b>10,000,000</b>
Liang Kang	<b>6,000,000</b>

The above share options outstanding at the end of period entitle the holders to subscribe for shares of the Company at any time during the period from 24 September 2000 to 18 October 2003, at an exercise price of HK\$0.144.

Save as disclosed above, none of directors or the chief executive or their associates had any interest in any right to subscribe for equity or debt securities of the Company granted to any of them or to their spouse or children under 18 years of age and had exercised and had any exercise of any such right.

## DIRECTOR'S DEEMED INTEREST IN SECURITIES IN ASSOCIATED CORPORATIONS

As at the balance sheet date, Mr. Cheung Chung Kiu was deemed to have the following interests in the following associated corporations by virtue only of his interests in Yugang International Limited. For the avoidance of doubt, Mr Cheung did not personally have any interests in such associated corporations.

<b>Name of Corporation</b>	<b>Class and/or Description of Securities</b>	<b>Number of Securities</b>
Qualipak International Holdings Limited	Ordinary Shares	1,079,592,360
Qualipak International Holdings Limited	Warrants	11,030,400
Qualipak International Holdings Limited	Convertible Notes	Principal value of HK\$150,000,000
Prestige Properties Holdings Limited	Ordinary Shares	273,000,000

### Substantial shareholder

At the balance sheet date, the following shareholder had notified the Company of a direct or indirect interest in 10% or more of the issued share capital of the Company:

<b>Name</b>	<b>Number of shares</b>	<b>Approximate Percentage (%)</b>
Chongqing Industrial Limited ( <i>Note 1</i> )	3,194,434,684	37.79%
Cheung Chung Kiu ( <i>Note 2</i> )	3,247,754,684	38.42%

Notes:

1. The voting rights of these shares are exercisable by Chongqing Industrial Limited, Cheung Chung Kiu controls Chongqing Industrial Limited.
2. Out of 3,247,754,684 Shares, 3,194,434,684 Shares are held by Chongqing Industrial Limited and 53,320,000 Shares are held by Cheung Chung Kiu personally.

Save as disclosed above, no person, other than the directors or chief executives of the Company, whose interests are set out in the section “Directors’ and chief executives’ interests in the securities of the Company and its associated corporations” above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

## **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the period.

## **AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the Group’s unaudited interim results for the six months ended 30 June 2001.

## **CODE OF BEST PRACTICE**

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30 June 2001, in compliance with Appendix 14 of the Listing Rule.

## **APPRECIATION**

On behalf of the Board of Directors, I would like to extend our gratitude and sincere appreciation to all management and staff members for their hard work and dedication throughout the period.

By order of the Board  
**Cheung Chung Kiu**  
*Chairman*

Hong Kong  
7 September, 2001