

# YUGANG

YUGANG INTERNATIONAL LIMITED

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INTERIM REPORT 2002

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## **CORPORATE INFORMATION**

### **EXECUTIVE DIRECTORS:**

Cheung Chung Kiu

*(Chairman and Managing Director)*

Yuen Wing Shing

Zhang Qing Xin

Lam Hiu Lo

Liang Kang

### **NON-EXECUTIVE DIRECTORS:**

Lee Ka Sze, Carmelo

Wong Wai Kwong, David

### **SECRETARY**

Albert T. da Rosa, Jr.

### **AUDITORS**

Ernst & Young

### **BANKERS**

The Hongkong and Shanghai Banking  
Corporation Limited

Bank of China (Hong Kong) Limited

Standard Chartered Bank

### **SOLICITORS**

Cheung, Tong & Rosa

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

The Bank of Bermuda Limited

6 Front Street

Hamilton HM11

Bermuda

### **SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG**

Tengis Limited

4th Floor Hutchison House

10 Harcourt Road

Hong Kong

### **REGISTERED OFFICE**

Clarendon House

Church Street

Hamilton HM11

Bermuda

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Rooms 3301-3302

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

## 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 2002 together with the unaudited comparative figures for the corresponding period in 2001 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2002

	Notes	For the six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
TURNOVER		124,027	235,239
Cost of sales		<u>(92,555)</u>	<u>(194,246)</u>
Gross profit		31,472	40,993
Other revenue and gains		23,623	32,768
Selling and distribution costs		(4,845)	(5,948)
Administrative expenses		(40,457)	(34,399)
Other operating income/(expenses), net	3	<u>(68,982)</u>	<u>46,969</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		(59,189)	80,383
Finance costs	4	(8,349)	(6,060)
Share of results of:			
A jointly-controlled entity		(1,367)	239
Associates		<u>7,963</u>	<u>10,491</u>
PROFIT/(LOSS) BEFORE TAX		(60,942)	85,053
Tax	6	<u>(2,799)</u>	<u>(2,602)</u>
PROFIT/(LOSS) AFTER TAX		(63,741)	82,451
Minority interests		<u>(5,781)</u>	<u>(10,957)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><u>(69,522)</u></u>	<u><u>71,494</u></u>
EARNINGS/(LOSS) PER SHARE	8		
Basic		<u><u>(0.82) HK cents</u></u>	<u><u>0.85 HK cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>0.75 HK cents</u></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2002

	<i>Notes</i>	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		<b>205,365</b>	193,201
Interests in associates		<b>612,493</b>	611,299
Other assets		<b>73,947</b>	116,372
		<b>891,805</b>	920,872
CURRENT ASSETS			
Other investments		<b>258,401</b>	237,701
Stocks		<b>44,734</b>	38,650
Loans receivable		<b>370,000</b>	299,950
Other debtors, deposits and prepayments		<b>280,498</b>	275,960
Trade debtors	<i>11</i>	<b>38,368</b>	38,502
Bills receivable		<b>9,550</b>	11,572
Pledged time deposits		<b>7,997</b>	7,947
Time deposits		<b>526,425</b>	612,105
Cash and bank balances		<b>31,417</b>	28,050
		<b>1,567,390</b>	1,550,437

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

30 June 2002

	Notes	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
<b>CURRENT LIABILITIES</b>			
Bills payable and trust receipt loans, secured		—	6,161
Trade creditors	12	22,819	14,107
Tax payable		65,609	65,585
Other payables		9,888	4,561
Accrued expenses		21,813	28,666
Customers' deposits received		7,595	7,260
Current portion of obligations under hire purchase contracts		9	12
Convertible notes		219,700	219,700
Bank loan, secured		40,000	—
		<u>387,433</u>	<u>346,052</u>
<b>NET CURRENT ASSETS</b>		<u>1,179,957</u>	<u>1,204,385</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,071,762</u>	<u>2,125,257</u>
<b>NON-CURRENT LIABILITIES</b>			
Long term portion of obligations under hire purchase contracts		18	22
Convertible notes		100,000	100,000
Deferred tax		1,455	1,455
		<u>101,473</u>	<u>101,477</u>
<b>MINORITY INTERESTS</b>		<u>169,486</u>	<u>153,455</u>
		<u>1,800,803</u>	<u>1,870,325</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital		84,533	84,533
Reserves		1,716,270	1,785,792
		<u>1,800,803</u>	<u>1,870,325</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(13,002)	15,096
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(120,281)	(131,298)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	51,020	(8)
DECREASE IN CASH AND CASH EQUIVALENTS	(82,263)	(116,210)
Cash and cash equivalents at beginning of period	648,102	648,664
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>565,839</u>	<u>532,454</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	31,417	23,881
Non-pledged time deposits	526,425	500,715
Pledged time deposits	7,997	7,858
	<u>565,839</u>	<u>532,454</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2002

	Unaudited six months ended 30 June 2002						
	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Warrant subscription reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group							
At 1 January 2002	84,533	840,629	760,799	25,674	(419)	159,109	1,870,325
Net loss for the period	—	—	—	—	—	(69,522)	(69,522)
At 30 June 2002	<u>84,533</u>	<u>840,629</u>	<u>760,799</u>	<u>25,674</u>	<u>(419)</u>	<u>89,587</u>	<u>1,800,803</u>

	Unaudited six months ended 30 June 2001						
	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Warrant subscription reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group							
At 1 January 2001	845,332	840,629	—	8,364	57	84,394	1,778,776
Reduction in par value of shares	(760,799)	—	760,799	—	—	—	—
Net profit for the period	—	—	—	—	—	71,494	71,494
At 30 June 2001	<u>84,533</u>	<u>840,629</u>	<u>760,799</u>	<u>8,364</u>	<u>57</u>	<u>155,888</u>	<u>1,850,270</u>



## NOTES TO INTERIM FINANCIAL STATEMENTS

30 June 2002

### 1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountant ("HKSA").

The accounting policies and basis of preparation 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 2001, with the exception of certain presentational changes to comply with SSAP 1 (revised), "Presentation of financial statements" and SSAP 15 (Revised) "Cash flow statements", issued by the HKSA, which are effective for accounting periods commencing on or after 1 January 2002.

## 2. SEGMENTAL INFORMATION

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

	Turnover		Contribution to profit/(loss) from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
<b>By activity:</b>				
Trading of automobile parts	23,528	116,482	(9,820)	4,560
Manufacturing and sale of packaging products	100,149	118,493	16,714	28,590
Rental income	350	264	350	264
	<u>124,027</u>	<u>235,239</u>	7,244	33,414
Provision for doubtful debts, net			(10,245)	—
Unrealised holding gains/(losses) on other investments			(57,147)	61,997
Gain/(loss) on disposal of other investments			959	(5,028)
Provision for impairment in value of convertible notes			—	(10,000)
Profit/(loss) from operating activities			<u>(59,189)</u>	<u>80,383</u>

	Turnover		Contribution to profit/(loss) from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>
<b>By geographical area:</b>				
Hong Kong	21,273	40,332	(60,277)	56,886
Mainland China	23,528	116,482	(10,917)	4,560
North and South Americas	44,849	31,016	6,796	7,490
Europe	25,809	38,808	3,911	9,371
Others	8,568	8,601	1,298	2,076
	<u>124,027</u>	<u>235,239</u>	<u>(59,189)</u>	<u>80,383</u>

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

	For the six months ended 30 June	
	2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>
Provision for doubtful debts, net	(10,245)	—
Loss on deemed disposal of partial interest in subsidiaries	(2,543)	—
Unrealised holding gains/(losses) on other investments	(57,147)	61,997
Gain/(loss) on disposal of other investments	959	(5,028)
Provision for impairment in value of convertible notes	—	(10,000)
Others	(6)	—
	<u>(68,982)</u>	<u>46,969</u>

#### 4. FINANCE COSTS

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within one year	420	610
Interest on convertible notes	7,926	5,447
Hire purchase interest	3	3
	<u>8,349</u>	<u>6,060</u>

#### 5. DEPRECIATION

During the period, depreciation of approximately HK\$5,313,000 (2001:HK\$4,344,000) were charged to the profit and loss account.

#### 6. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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.

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Group:		
Hong Kong	1,095	1,934
Share of tax attributable to:		
Jointly-controlled entity	8	25
Associates	1,696	643
Tax charge for the period	<u>2,799</u>	<u>2,602</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 30 June 2002 (2001: Nil).

## **8. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share for the period ended 30 June 2002 is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$69,522,000 (2001: net profit of HK\$71,494,000) and the weighted average number of 8,453,321,700 (2001: 8,453,321,700) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period ended 30 June 2001 was based on the net profit from ordinary activities attributable to shareholders for the period of HK\$76,044,000 as adjusted for the interest saving on the conversion of the convertible note into ordinary shares of the Company. The weighted average number of ordinary shares used in the calculation is the sum of the number of ordinary shares in issue during the period used in the basic earnings per share calculation of 8,453,321,700, and the weighted average of 1,690,000,000 ordinary shares assumed to have been issued at no consideration on the deemed conversion of all convertible notes into ordinary shares of the Company during the period. The share options and warrants outstanding during the period ended 30 June 2001 had no dilutive effect on the basic earnings per share for that period.

The diluted loss per share for the period ended 30 June 2002 has not been shown as the share options, warrants and convertible notes outstanding during the period has an anti-dilutive effect on the basic loss per share for the period.

## **9. INVESTMENT PROPERTY**

During the period, the Group incurred approximately HK\$19,384,000 on the acquisition of the investment property.

## 10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$17,496,000 (2001: HK\$11,716,000) 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>2002</b>	2001
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
0 — 30 days	15,558	8,722
31 — 60 days	8,105	5,204
More than 60 days	14,705	24,576
	<u>38,368</u>	<u>38,502</u>

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>2002</b>	2001
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
0 — 30 days	7,778	4,741
31 — 60 days	5,107	2,576
More than 60 days	9,934	6,790
	<u>22,819</u>	<u>14,107</u>

### 13. 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</b>	31 December
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Authorised and contracted for	<b>28,008</b>	11,752
Authorised, but not contracted for	<u><b>1,882</b></u>	<u>—</u>
	<u><b>29,890</b></u>	<u>11,752</u>

### 14. 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>2002</b>	2001
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bills receivable discounted with recourse	<u>—</u>	<u>7,755</u>

- (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.

## 15. RELATED PARTY TRANSACTIONS

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

		<b>Group</b>	
	<i>Notes</i>	<b>2002</b>	2001
		<b>HK\$’000</b>	<b>HK\$’000</b>
Rental expenses for office premises			
paid to a substantial shareholder	<i>(i)</i>	<b>783</b>	779
Rental income for office premises			
received from an associate	<i>(ii)</i>	<b>444</b>	443
Interest expense paid to a related company	<i>(iii)</i>	<b>2,479</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 Rules Governing the Listing of Securities on the Stock Exchange of 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.



- (iii) A convertible note of HK\$100,000,000 bearing interest at 5% per annum was issued to Timmex Investment Ltd., a company in which Cheung Chung Kiu, a director of the Company, has beneficial interest of 100%. The interest expense paid to a related company was in respect of the convertible note issued. The above transactions constituted connected transactions for the Company under the Listing Rules.

## **16. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

These unaudited condensed consolidated interim financial statements were approved by the board of directors on 6th September 2002.

## **BUSINESS REVIEW**

During the first half of the year, the economic performance of Hong Kong was rather weak with high unemployment and deflation rates. The retail sector continued stagnant and the demand for automobile parts was still sluggish resulting in drastic fall of the Group's turnover.

However, the Group has successfully diversified its operation through equity investment in various businesses including packaging business, property investment business and infrastructure project. As all of the above businesses are capable of generating a stable stream of income, it can provide a solid base contribution to the operating profit of our Group.

### **Packaging Business**

The packaging business, carried by the listed subsidiary, Qualipak International Holdings Ltd ("Qualipak"), had a net profit after tax of HK\$11.8 million for the six months ended 30th June 2002. During the period, the sale of packaging products was still affected by the residual effect of the event of 11 September and was overall decreased by 15.5% over the corresponding period last year.

Although the packaging business went through a difficult period since the event of 11 September, it commenced to recover in the second quarter of 2002. With the diminishing effect of the event of 11 September, there were signs that both demand and prices of goods began to stabilize in the second quarter of 2002. The sales turnover and gross margin gradually rebounded to the original level. In addition, relocation of the manufacturing plant to Zhongshan had been completed and full scale of production had been commenced to support sales volume growth after the first quarter of 2002.

### **Property Investment Business**

The Group's property investment is held through an equity holding of an associate, Y.T. Realty Group Ltd ("Y.T. Realty") (formerly known as Prestige Properties Holdings Ltd), a company listed in Hong Kong.

The major investment properties held by Y.T. Realty include Century Square in Central, Prestige Tower in Tsimshatsui and 2nd Floor, New Mandarin Plaza in Tsimshatsui East etc.

Y.T. Realty had a net profit of HK\$28 million for the six months ended 30th June, 2002. During the period, the market sentiment for both office and retail leasing was severely depressed with particular higher rate of vacancy. However, the gross rental income of Y.T. Realty recorded HK\$58.2 million which was merely a slight decrease of 7.5% over the last corresponding period in spite of the difficult market condition of commercial leasing market. This was primarily attributable to the concerted effort of its management team in maintaining a higher percentage of occupancy rate.

Y.T. Realty will continue to strengthen its contribution to the Group's net profit by maintaining relatively stable leasing result, their proactive leasing approach as well as their dedicated management services.

### **Infrastructure Project**

The Group has significant interest in an infrastructure project that is currently held by The Cross-Harbour (Holdings) Ltd ("Cross Harbour"), a listed company in Hong Kong. Cross Harbour reported a net profit of HK\$46.5 million for the six months ended 30th June 2002, representing 7.4% increase over the last corresponding period. This was primarily due to better performance of an infrastructure project of Western Harbour Tunnel ("WHT"). During the period under review, WHT not only maintained stable toll revenue but also reduced its interest expense due to lower interest rate maintained after massive rate cut last year. The nature of its stable recurrent income virtually formed a solid support to the contribution to the Group's operating profit indirectly.

### **Trading of automobile parts**

The traditional trading of automobile parts gradually played a diminishing role in the overall contribution to the Group's operating profit. Given the sluggishness of trading activities of automobile parts that lead to significant decrease of turnover during the period, the Group's profit base can be strengthened by other businesses of the Group.

## PROSPECT

The packaging business is undergoing reorganization and streamlining of operations to implement cost rationalization, achieve higher efficiency and consolidate its position to launch new products to widen customer base. With an excellent design and marketing team as well as focused management, the packaging business of Qualipak is best positioned to take advantage of any new challenges and opportunities in the second half of this year.

Although the prospect of property investment is clouded by various negative factors such as deflation and higher unemployment rate etc. The management team has taken a proactive approach to upgrade the building and improve the services to tenants so as to encourage more tenancy renewals and new sign-ups. The stabilization of property investment business will continue to act as strong support to the profit base of the Group in the foreseeable future.

The Group has successfully implemented the diversification strategy to expand its business and strengthen its income and asset base. The series of acquisitions have definitely provided our Group with a far-reaching future economic benefit. The Group will continue to explore any business opportunities in strategic acquisition of equity interests in Hong Kong or abroad.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

During the first half of this year, the Group's turnover was HK\$124,027,000 representing 47.3% decrease from the last corresponding period. The decline in turnover was mainly attributable to sluggishness of trading activities of automobile parts.

During the period, finance costs was increased to approximately HK\$8.3 million (2001: HK\$6.1 million) due to the issue of convertible note of HK\$100 million with interest payable at 5% per annum in July last year.

Loss attributable to shareholders of HK\$69.5 million was recorded during the period. It was mainly attributable to the provision for unrealized losses on securities investment of HK\$57.1 million, a general provision for trade debtors of HK\$10.2

million and a deemed loss on dilution of partial interest in a listed subsidiary of HK\$2.5 million as a result of exercise of its warrants. However, majority of the securities investment is held by the Group as long-term investment and the unrealized loss was resulted mainly from the volatility of security prices. Therefore, apart from the periodic securities revaluation loss, exceptional dilution loss and the general provision for trade debtors, the Group recorded an operating profit of HK\$0.3 million.

As at 30th June 2002, the Group's net asset value was HK\$1,801 million and had a net asset value per share of HK\$0.21. The Group's total assets and liabilities (excluding minority interest of HK\$169 million) were HK\$2,459 million and HK\$489 million respectively.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June 2002, the Group's cash and cash equivalent was HK\$565.8 million and there were sufficient unutilized lines of credit available from financial institutions. The gearing ratio, defined as long-term liabilities to shareholders' fund, was calculated as 5.6%. The Group has a working capital ratio of approximately 4.0 that indicated the working capital is sufficient to support the Group's operation.

As at 30th June 2002, the Group had a short-term bank borrowing of HK\$40 million and had no contingent liabilities.

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 maintained in Hong Kong and US dollars. Hence, the Group's exposure to foreign exchange risk is minimal.

## **CAPITAL STRUCTURE**

As at 30th June 2002, the Group's outstanding convertible notes was totaled to HK\$319,700,000. It comprised convertible notes of HK\$219,700,000 in aggregate issued in September 2000 ("Note A") and convertible notes of HK\$100,000,000 in aggregate issued in July 2001 ("Note B"). Both Note A and Note B are unsecured and bears interest at 5% per annum, payable annually in arrears and will be due for redemption on 5 September 2002 and 31 July 2004 respectively.

The above proceeds were used as working capital for the Group and to further diversify the Company's business.

## PLEDGE OF ASSETS

As at 30th June 2002, the Group pledged its leasehold properties and investment property with an aggregate carrying value of approximately HK\$74,233,000 and time deposits of HK\$7,997,000 as security for general banking facilities granted to the Group.

## EMPLOYEES

As at 30th June 2002, the Group employed approximately a total of 86 employees in Hong Kong and a workforce of 4,748 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 2002, the interests of the directors and chief executives and their associates in the securities of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange of Hong Kong (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

Name	Nature of interest	Number of ordinary shares held
Cheung Chung Kiu	Corporate ( <i>note 1</i> )	3,194,434,684
	Personal	53,320,000
Yuen Wing Shing	Personal	10,000,000
Lam Hiu Lo	Personal	38,600,000
Liang Kang	Personal	19,664,000
Zhang Qing Xin	Personal	13,600,000

(ii) **Interests in the Company's convertible note**

<b>Name</b>	<b>Nature of interest</b>	<b>Convertible notes held</b> <i>HK\$</i>
Cheung Chung Kiu	Corporate (note 2)	<b><u>100,000,000</u></b>

(iii) **Interests in Chongqing Industrial Limited**

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares held</b>
Cheung Chung Kiu	Corporate (note 3)	<b>1,857,143</b>
	Personal	<b><u>1,000,000</u></b>

(iv) **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><u>1,000,000</u></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) The convertible note was held by Timmex Investment Ltd., in which Cheung Chung Kiu has a beneficial interest of 100%.
- (3) Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited own 857,143, 142,857 and 857,143 shares, respectively, in Chongqing Industrial Limited.

In addition to the above, certain directors have non-beneficial personal interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

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 executives or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations recorded in the register 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.

## **DIRECTOR’S DEEMED INTERESTS IN SECURITIES OF THE COMPANY’S ASSOCIATED CORPORATIONS**

As at 30 June 2002, Cheung Chung Kiu was deemed to have interests in the securities of the following associated corporations by virtue only of his interests in Yugang International Limited. For the avoidance of doubt, Cheung Chung Kiu did not personally have any interests in these associated corporations.

<b>Name of Corporation</b>	<b>Class and/or Description of Securities</b>	<b>Number/value of Securities held</b>
Qualipak International Holdings Limited	Ordinary Shares	1,189,896,360
Qualipak International Holdings Limited	Convertible Notes	Principal value of HK\$150,000,000
Y.T. Realty Group Limited <i>(Formerly known as Prestige Properties Holdings Limited)</i>	Ordinary Shares	273,000,000



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

Pursuant to the Company's share option scheme (the "Scheme") adopted on 19 October 1993, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

The following share options were outstanding under the Scheme during the period:

Name or category of participant	Number of share options at beginning and end of period	Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options HK\$ **
<b>Directors</b>					
Cheung Chung Kiu	10,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Yuen Wing Shing	8,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Lam Hiu Lo	10,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Liang Kang	6,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
<b>Other employees</b>					
In aggregate*	199,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
	233,000,000				

\* Employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

\*\* The exercise price of the share option is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

Details of the Scheme are set out in page 15 of Annual Report 2001.

## DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' and chief executives' interests in the securities of the Company and its associated corporations", "Directors' deemed interests in securities of the Company's associated corporations" and "Grant of Director's rights to acquire shares by the Company" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDER

At the balance sheet date, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares	Approximate Percentage (%)
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, which is controlled by Cheung Chung Kiu.
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 2002.

## **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 2002, in compliance with the Code of Best Practice as set out in 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  
**Yuen Wing Shing**  
*Executive Director*

Hong Kong  
6 September, 2002