



YANION INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Interim
Report

2012

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CORPORATE INFORMATION

HONORARY CHAIRMAN

Zuo Tai Hang

HONORARY DIRECTOR

Xia Zhi Wu

DIRECTORS

Executive Directors

Butt Wing Han

Cheng Kwok Choi, Godwin

Cheng Shu Wing

Guo Duen How, Tom

Kao Ying Lun

Leung Wah Chai

Wu Fred Fong

Non-executive Directors

Choy Tak Ho

Tsui Chun Chung, Arthur

COMPANY SECRETARY

Chiu Lai Chun, Rhoda

FINANCIAL ADVISER

Dao Heng Securities Limited

LEGAL ADVISER

Siao, Wen and Leung

PRINCIPAL BANKERS

Bank of China

Dao Heng Bank Limited

Fortis Bank Asia HK

Nanyang Commercial Bank, Ltd

The Hongkong and Shanghai Banking
Corporation Limited

REGISTRARS

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

14 Bermudiana Road

Hamilton, Bermuda

REGISTRARS IN HONG KONG

Tengis Limited

4th Floor, Hutchison House

10 Harcourt Road, Hong Kong

REGISTERED OFFICE

Cedar House, 41 Cedar Avenue

Hamilton HM12, Bermuda

PRINCIPAL PLACE OF BUSINESS

6th Floor, Wah Lik Industrial Centre

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The board of directors of Yanion International Holdings Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2002

		Six months ended 30 June	
		2002	2001
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	2	62,494	100,715
Cost of sales		(60,203)	(85,770)
Gross profit		2,291	14,945
Other revenue		644	1,414
Selling and distribution costs		(2,454)	(5,081)
Administrative expenses		(22,872)	(23,526)
Amortisation of goodwill		(3,393)	(2,337)
LOSS FROM OPERATING ACTIVITIES		(25,784)	(14,585)
Finance costs		(771)	(2,047)
LOSS BEFORE TAX	3	(26,555)	(16,632)
Tax	4	(29)	(234)
LOSS BEFORE MINORITY INTERESTS		(26,584)	(16,866)
Minority interests		(61)	(285)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(26,645)	(17,151)
LOSS PER SHARE	5		
Basic		(5.1 cents)	(5.6 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2002

		As at 30 June 2002 (Unaudited) <i>HK\$'000</i>	As at 31 December 2001 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	7	55,630	63,012
Intangible assets		502	1,085
Goodwill	8	17,409	7,232
Interests in associates	9	250,000	250,000
Long term investments		1,000	1,000
Deposits	19	90,000	101,500
		414,541	423,829
CURRENT ASSETS			
Inventories		29,538	28,076
Accounts receivable	10	9,299	9,575
Prepayments and other receivables		8,349	3,813
Pledged deposits		4,611	13,839
Cash and cash equivalents		84,719	26,421
		136,516	81,724
CURRENT LIABILITIES			
Accounts payable	11	27,247	21,278
Other payables and accruals	12	29,383	17,766
Due to related companies		1,530	1,003
Tax payable		2,609	2,584
Interest-bearing bank loans and other borrowings		11,448	26,271
Finance lease payables		277	332
		72,494	69,234
NET CURRENT ASSETS			
		64,022	12,490
TOTAL ASSETS LESS CURRENT LIABILITIES			
		478,563	436,319
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		1,118	1,800
Finance lease payables		207	293
Deferred tax		136	136
		1,461	2,229
MINORITY INTERESTS			
		1,058	871
		476,044	433,219
CAPITAL AND RESERVES			
Share capital	13	285,825	260,375
Reserves		190,219	172,844
		476,044	433,219

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2002

	Share capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	260,375	271,195	33,474	198	(132,023)	433,219
Issue of new shares	25,450	45,810	–	–	–	71,260
Share issue expenses	–	(1,790)	–	–	–	(1,790)
Net loss for the period	–	–	–	–	(26,645)	(26,645)
At 30 June 2002	285,825	315,215	33,474	198	(158,668)	476,044

	Share capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	114,375	95,220	33,474	198	(55,826)	187,441
Issue of new shares	103,000	113,916	–	–	–	216,916
Share issue expenses	–	(2,252)	–	–	–	(2,252)
Net loss for the period	–	–	–	–	(17,151)	(17,151)
At 30 June 2001	217,375	206,884	33,474	198	(72,977)	384,954

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	Six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(15,086)	(81,082)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(3,799)	(123,469)
NET CASH INFLOW FROM FINANCING ACTIVITIES	77,307	213,157
INCREASE IN CASH AND CASH EQUIVALENTS	58,422	8,606
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	20,504	26,164
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	78,926	34,770
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	84,719	35,475
Bank overdrafts	(793)	(705)
Trust receipts and export loans with maturity within three months	(5,000)	–
	78,926	34,770

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim financial reporting, issued by the Hong Kong Society of Accountants (“HKSA”), and requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The condensed interim financial statements should be read in conjunction with the Company’s 2001 annual report.

The accounting policies and methods of computation used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2001 except that

- (a) the Group has changed the estimated useful life of moulds and tools. The principal annual rates of moulds and tools used for the calculation of depreciation on straight-line basis has changed from 10% to 33¹/₃%. The financial impact is that depreciation of approximately HK\$4,734,000 is further charged to the profit and loss account for the six months ended 30 June 2002; and
- (b) the Group has changed certain of its accounting policies following its first adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:–
 - (i) SSAP 1 (Revised) : Presentation of financial statements

The consolidated statement of recognized gains and losses was replaced by the consolidated statement of changes in equity.

- (ii) SSAP 11 (Revised): Foreign currency translation

The profit and loss account of foreign enterprises are translated into Hong Kong dollars at the weighted average exchange rates during the period. In prior years, these were translated at the exchange rates ruling at the balance sheet date. The effect of such change is not material to the financial statements.

- (iii) SSAP 15 (Revised): Cash flow statement

A revised classification of activities from which cash flows are derived has been made.

2. SEGMENT INFORMATION

(a) Business segments

The following table presents revenue and results for the Group's business segments for the six months ended:

	Manufacture and trading of CD/VCD players and mechanisms, amplifiers, computer peripherals		Manufacture and trading of car audio mechanisms, cassette deck mechanisms and related products		Manufacture and trading of personal office appliances and medical devices		Trading of Internet phone sets and provision of related services		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>39,093</u>	<u>39,057</u>	<u>22,330</u>	<u>36,047</u>	<u>1,071</u>	<u>25,611</u>	<u>-</u>	<u>-</u>	<u>62,494</u>	<u>100,715</u>
Segment results	(10,972)	(5,787)	(4,568)	(2,664)	(102)	1,016	(3,457)	(2,253)	(19,099)	(9,688)
Interest income									217	646
Unallocated expenses									<u>(6,902)</u>	<u>(5,543)</u>
Loss from operating activities									<u>(25,784)</u>	<u>(14,585)</u>
Finance costs									<u>(771)</u>	<u>(2,047)</u>
Loss before tax									<u>(26,555)</u>	<u>(16,632)</u>
Tax									<u>(29)</u>	<u>(234)</u>
Loss before minority interests									<u>(26,584)</u>	<u>(16,866)</u>
Minority interests									<u>(61)</u>	<u>(285)</u>
Net loss from ordinary activities attributable to shareholders									<u>(26,645)</u>	<u>(17,151)</u>

(b) Geographical segments

The following table presents revenue and results for the Group's geographical segments for the six months ended:

	Hong Kong		PRC		Other Asian countries		Europe		America		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	<u>9,956</u>	<u>20,630</u>	<u>6,766</u>	<u>13,453</u>	<u>4,791</u>	<u>8,643</u>	<u>26,184</u>	<u>38,524</u>	<u>14,797</u>	<u>19,465</u>	<u>62,494</u>	<u>100,715</u>
Segment results	<u>(2,042)</u>	<u>(1,762)</u>	<u>(4,843)</u>	<u>(3,167)</u>	<u>(1,205)</u>	<u>(1,004)</u>	<u>(7,332)</u>	<u>(3,139)</u>	<u>(3,677)</u>	<u>(616)</u>	<u>(19,099)</u>	<u>(9,688)</u>

3. LOSS BEFORE TAX

Loss before tax was determined after charging/(crediting) the followings:

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Other revenue:		
Interest income	(217)	(646)
Other income	(427)	(768)
	<u>(644)</u>	<u>(1,414)</u>
Finance costs:		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	735	1,951
Interest on finance leases	36	96
	<u>771</u>	<u>2,047</u>
Amortisation of deferred development costs	583	2,174
Staff cost (excluding directors' remuneration)	12,880	15,737
Depreciation	9,237	7,320

4. TAX

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
PRC corporate income tax	–	131
Hong Kong profits tax	29	103
	<u>29</u>	<u>234</u>

Hong Kong profits tax has been provided at the rate of 16% (Six months ended 30 June 2001: 16%) on the estimated assessable profits derived from Hong Kong during the period.

Profits generated from the activities in the PRC are subject to PRC corporate income tax at the applicable rates of tax based on existing legislation, interpretation and practices in respect thereof.

5. LOSS PER SHARE

The calculation of loss per share for the period is based on the consolidated net loss attributable to shareholders of HK\$26,645,000 (Six months ended 30 June 2001: HK\$17,151,000) and the weighted average number of 524,386,387 ordinary shares (30 June 2001: 305,155,068 shares) in issue during the period.

No diluted loss per share has been presented for the six months ended 30 June 2002 as there were no share options outstanding during the period. The diluted loss per share for the six months ended 30 June 2001 has not been shown as the share options outstanding during that period had an anti-dilutive effect on the basic loss per share for the period.

6. DIVIDENDS

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2002 (Six months ended 30 June 2001: Nil).

7. FIXED ASSETS

	30 June 2002	31 December
	HK\$'000	2001
		<i>HK\$'000</i>
Net book value at beginning of period/year	63,012	74,764
Additions	1,855	5,277
Depreciation	(9,237)	(13,526)
Provision for impairment in values	–	(3,503)
	<hr/>	<hr/>
Net book value at end of period/year	55,630	63,012
	<hr/>	<hr/>

8. GOODWILL

	30 June 2002	31 December
	HK\$'000	2001
		<i>HK\$'000</i>
Balance at beginning of period/year	7,232	–
Arising from the acquisition of a subsidiary	13,570	33,935
Less: Amortisation provided during the period/year	(3,393)	(5,656)
Impairment provided during the period/year	–	(21,047)
	<hr/>	<hr/>
Balance at end of period/year	17,409	7,232
	<hr/>	<hr/>

During the period, the Group acquired an 60% equity interest in Modern Vocal Limited (“Modern Vocal”) for a cash consideration of HK\$13,500,000. Modern Vocal is an investment holding company incorporated in the British Virgin Islands. It holds 90% equity interest in a sino-foreign enterprise, Tianjin Jitong Network Technology Company Limited (“Tianjin Jitong”) which is engaged in the development of Internet phone business in the PRC (Note 14).

9. INTERESTS IN ASSOCIATES

As explained in the 2001 annual financial statements of the Group, the directors of the associate, Global Cyber Limited (“Global Cyber”) and of the Company became aware that the PRC Party to the underlying joint venture investment of Global Cyber – Shanghai Dazheng WorldVest Technology Company Limited (“Shanghai Dazheng”) had applied to the State Intellectual Property Office of the PRC for the registration of a VOD chip in its own name. The directors of Global Cyber consider that such registration may infringe the intellectual property rights of the Shanghai Dazheng VOD technology and have communicated to the PRC Party their concern and disapproval of the situation. This matter was and remains disputed by the PRC Party. The directors of Global Cyber and the Company are seeking advice from PRC legal counsel as to the appropriate course of action, including arbitration and/or the legal action that should be taken. At the date of approval of these financial statements, the directors of the Company are not in a position either (i) to equity account for this investment; or (ii) to quantify the outcome and the effect of such dispute including any resultant impairment provision that may be required against the carrying amount of the associate of the Group as at 30 June 2002.

10. ACCOUNTS RECEIVABLE

The Group maintains a defined credit policy and allows credit periods ranged from 15 to 90 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed and monitored by senior management. The aged analysis of accounts receivable based on payment due date, and net of provision is as follows:

	30 June 2002	31 December
	HK\$'000	2001
		<i>HK\$'000</i>
Within 1 month	5,381	5,551
2 to 3 months	2,955	3,565
4 to 6 months	525	459
7 to 12 months	438	–
	<hr/> 9,299 <hr/>	<hr/> 9,575 <hr/>

11. ACCOUNTS PAYABLE

The aged analysis of accounts payable based on payment due date, is as follows:

	30 June 2002	31 December
	HK\$'000	2001
		<i>HK\$'000</i>
Within 1 month	8,143	5,777
2 to 3 months	11,901	9,545
4 to 6 months	3,496	3,604
7 to 12 months	1,420	504
Over 1 year	2,287	1,848
	<hr/> 27,247 <hr/>	<hr/> 21,278 <hr/>

12. OTHER PAYABLES AND ACCRUALS

Other payables and accruals included the amounts due to directors of HK\$8,278,000 (31 December 2001: Nil) which are unsecured, interest-free and have no fixed repayment terms.

13. SHARE CAPITAL

The movements in the issued share capital of the Company during the period were as follows:

	Number of ordinary shares	Carrying amount <i>HK\$'000</i>
At 1 January 2002	520,750,673	260,375
Issue of new ordinary shares	<u>50,900,000</u>	<u>25,450</u>
At 30 June 2002	<u>571,650,673</u>	<u>285,825</u>

14 ACQUISITION OF A SUBSIDIARY

	30 June 2002 <i>HK\$'000</i>
Net asset acquired of:	
Cash and bank balances	9
Other receivables	1,681
Other payables and accruals	(1,634)
Minority interests	<u>(126)</u>
	(70)
Goodwill on acquisition	<u>13,570</u>
	<u>13,500</u>
Satisfied by:	
Cash consideration	<u>13,500</u>

On 22 March 2002, the Group acquired 60% equity interest in Modern Vocal for cash consideration of HK\$13,500,000. The principal asset of Modern Vocal is its 90% equity interest in Tianjin Jitong. This transaction has been accounted for by the acquisition method of accounting.

During the period since acquisition, Modern Vocal and Tianjin Jitong did not contribute earnings to the Group as it was in a developmental stage of operation. No goodwill has been amortised and charged to profit and loss account until commercial operation starts.

15. RELATED PARTY TRANSACTIONS

	Six months ended 30 June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchases of raw materials from a related company	426	594
Rental expenses paid/payable to related companies	1,041	1,041
Rental expenses paid/payable to a director	360	360
Consultancy fees paid/payable to a related company	450	450
	<u>2,277</u>	<u>2,445</u>

16. CONTINGENT LIABILITIES

	30 June 2002	31 December 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	<u>4,734</u>	<u>2,421</u>

17. OPERATING LEASE COMMITMENTS

	30 June 2002	31 December 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total future minimum lease payments under non-cancellable operating leases in respect of its land and buildings falling due:		
Within one year	8,173	10,116
In the second to fifth years, inclusive	14,285	17,894
	<u>22,458</u>	<u>28,010</u>

18. CAPITAL COMMITMENTS

	30 June 2002	31 December
	HK\$'000	2001 HK\$'000
Contracted, but not provided for:		
Acquisition of a subsidiary (<i>Note 19</i>)	73,000	2,000

19. POST BALANCE SHEET EVENT

On 9 August 2002, the Group completed the acquisition of an 87% equity interest in Korning Investments Limited (“Korning”), a company incorporated in the British Virgin Islands, for a cash consideration of US\$12.8 million (equivalent to HK\$99.84 million). The only asset of Korning is its indirect interest in a sino-foreign pharmaceutical joint venture (the “Pharmaceutical JV”). The deposit of HK\$90 million was used to set off the consideration for acquisition of Korning upon completion on 9 August 2002, resulting in a remaining capital commitment of approximately HK\$10 million as at 30 June 2002. Pursuant to the joint venture agreement, the total investment and registered capital of the Pharmaceutical JV is RMB126 million and the Group’s share in its capital contribution is approximately HK\$63 million which is also disclosed as a capital commitment in Note 18 above.

20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved by the board of directors on 23 September 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months period ended 30 June 2002, the Group's turnover was HK\$62,494,000 (HK\$100,715,000 in the same period last year) and the loss attributable to shareholders was HK\$26,645,000 (HK\$17,151,000 in the same period last year).

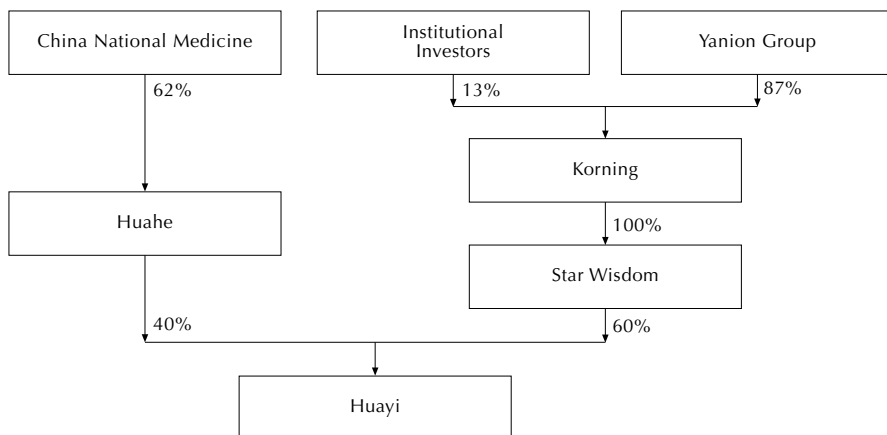
The turnover of the Group for the first six months of 2002 represents a decrease of 38% compared to the same period last year. This is mainly due to the impact of the "September 11" incident of last year on the worldwide business environment which resulted in an economic downturn. Declining demand on electronic products coupled with price wars also negatively affected the Group's manufacturing business. However, the Board continued earnestly to diversify the Group's business, with a primary focus of targeting at high potential markets in PRC. By capturing the huge market potentials and business ventures in appropriate segments, the Group seeks to enhance its future business prospects. As of today, the Group successfully invested in a premium pharmaceutical business.

Manufacturing business

The performance of the manufacturing business for the first six months of this year was less than satisfactory. The sales of car audio mechanisms, cassette deck mechanisms, high precision spring and different types of metal and plastic parts, amounted to HK\$22,330,000 representing 36% of total turnover (HK\$36,047,000 and 36% for the same period last year). The sales of the high-end audio and visual product which included mini A/V products, CD players, VCD players, amplifiers and other high-end audio products, amounted to HK\$39,093,000 representing 62% of total turnover (HK\$39,057,000 and 39% for the same period last year). The sales of other non-audio products amounted to HK\$1,071,000 representing 2% of total turnover (HK\$25,611,000 and 25% for the same period last year). During the period, because of the decline in confidence of overseas consumer and deflation, the gross profit margin of the manufacturing business has decreased. Although selling and distribution costs dropped by HK\$2,627,000 when compared to the same period last year, the overall results of the manufacturing business was not satisfactory. Geographically, the sales to Europe, America, Hong Kong, PRC and other Asian countries for the first six months of 2002 represented 42%, 24%, 16%, 11% and 7% of the total turnover respectively (38%, 19%, 21%, 13% and 9% respectively for the same period last year).

Investment in pharmaceutical business

Further to the conditional sale and purchase agreement and a supplemental agreement entered into on 2 January 2002 and 11 April 2002 respectively for the acquisition of an 87% equity interest in Korning, a sino-foreign joint venture, 華頤藥業有限公司 (Huayi Pharmaceutical Company Limited) (“Huayi”), was set up on 26 July 2002. Korning beneficially owns a 60% interest of this joint venture through Star Wisdom Investments Limited (“Star Wisdom”). The total investment and registered capital of Huayi were both RMB126,000,000. Through this joint venture, the Group has in effect formed a cooperative partnership with 中國藥材集團公司 (China National Group Corporation of Traditional and Herbal Medicine) (“China National Medicine”). The structure of the joint venture is as follows:



China National Medicine, formerly known as 中國藥材公司, is an authoritative and unequivocal leader in the Chinese pharmaceutical business in the PRC. It was founded in 1955 and was a supervising body to the traditional Chinese medicine industry in the PRC. It has 41 enterprise members including 15 wholly-owned subsidiaries, 11 controlling enterprises and 15 joint ventures. The principal business include Chinese herbs, Chinese herbal medicine, Chinese patent medicine, etc. China National Medicine has been responsible for the statistical work of Chinese medicines for 38 years and maintains the only Chinese medicine information system and database in China. China National Medicine established a Chinese medicine system overseeing plantation, production, operation and management in the PRC and has sales outlets widely spread over the PRC, Japan, South East Asia and Europe. Pursuant to the joint venture agreement, the PRC party, 華禾藥業股份有限公司 (Huahe Pharmaceutical Company Limited) (“Huahe”), has contributed RMB50,400,000 worth of tangible and intangible assets into Huayi. They include all approvals (including the approval from State Drug Administration in Beijing in relation to the transfer of 16 medicines to Huayi), related medicine production certificate and other intellectual property rights, machineries and equipment, inventories and accounts receivable relating to the following 16 Chinese medicines:

- (i) 威麥寧膠囊 (for curing lung cancer);
- (ii) 咽速康氣霧劑 (for curing sore throat);
- (iii) 七里膠囊 (for curing pains in joints and strained tendons);
- (iv) 通樂顆粒 (for curing constipation problem);
- (v) 小柴胡沖劑 (for curing fever and inflammation to the respiratory system);
- (vi) 元胡止痛片 (for curing various pains);
- (vii) 利膽排石片 (for curing cholelithiasis);
- (viii) 感冒止咳沖劑 (for curing influenza);
- (ix) 感冒止咳沖劑(無糖型) (for curing influenza);
- (x) 清熱化痰口服液 (for curing acute bronchitis);
- (xi) 芪冬解毒口服液 (for curing myocarditis caused by virus);
- (xii) 玉屏風口服液 (for curing influenza);
- (xiii) 威麥寧粉 (for curing lung cancer);
- (xiv) 明目上清片 (for curing eye related diseases);
- (xv) 銀翹解毒膠囊 (for curing fever, headache and sore throat); and
- (xvi) 冠保顆粒 (for curing angina pectoris and coronary heart disease).

Huayi was formally established in the PRC and received its business licence on 26 July 2002. Huayi possesses all intellectual properties of the 16 medicines and related machineries and equipment, and working capital in excess of RMB60,000,000 for business expansion. As the 16 medicines are protected by intellectual property rights and can widely be promoted to hospitals and users all over China, the market is very broad and the medicines are highly competitive.

It was mutually agreed that China National Medicine and Huahe would use their best efforts and experience in the pharmaceutical business to support Huayi to achieve a profit target of RMB50,000,000 in the first 12 months of its establishment, which has been incorporated into the joint venture agreement. As mentioned in the Group's circular to its shareholders dated 3 May 2002, the total investment was approximately HK\$161,900,000 which included a premium of HK\$99,840,000 payable to an independent third party for the acquisition of its interest in Korning. Such premium would be capitalized and recorded as goodwill for the Group.

After its establishment on 26 July 2002, Huayi immediately recorded an unaudited turnover of approximately RMB14,000,000 for the first month (August 2002). If the turnover can sustain in the next 11 months, the first year target turnover and target profits of RMB50,000,000, anticipated by China National Medicine, Huahe and the Group, will be met. The Board considers that the acquisition has already brought immediate operating profits to the Group and enables the Group to establish a more solid business cooperation foundation and closely related unique relationship with China National Medicine. The Board also believes that by leveraging the supply of various Chinese medicine products and distribution network of China National Medicine, the Group's long term competitive advantage in the pharmaceutical industry would be strengthened. As more business opportunities may be explored, the earning prospects of the Group could be improved.

Internet phone business

The business principally involves the selling and distribution of Internet phone sets and prepaid stored valued phone cards in major cities in the PRC. Owing to intense competition in the market, increasing demand by domestic customers for higher sound quality and declining prices of the products, this investment had been affected to a certain extent. The management will closely monitor the changes in the market and the future of the business and will review the business thoroughly in the second half year in order to map out appropriate business strategies.

Video-on-demand system business

Video-on-demand ("VOD") system is an investment in the re-engineering of the cable TV stations in the PRC. The Group beneficially owned as to 27% interest in the associated company, Global Cyber. The principal asset of Global Cyber is an 80% equity interest in Shanghai Dazheng. The PRC party which is a Shanghai company with many years of research and development experiences. The joint venture is principally engaged in research and development and implementation of digitalized VOD system in the PRC, which involved in the re-engineering of the cable TV stations in the PRC by employing related software, servers and set top boxes. However, the Group is currently in dispute with the PRC party in relation to the ownership of the underlying intellectual property rights of the VOD software, the business is temporarily suspended. The Group is now seeking means including the appointment of its PRC lawyer to take legal proceedings in the PRC to protect the investment interests of the Group. Further announcements will be made as and when appropriate.

Liquidity and financial resources

As at 30 June 2002, the Group's current assets amounted to HK\$136,516,000, representing an increase of approximately HK\$54,792,000 as compared to the end of last year. Amongst them, cash and cash equivalents increased HK\$58,298,000 to HK\$84,719,000; pledged deposits decreased HK\$9,228,000 to HK\$4,611,000; inventories increased HK\$1,462,000 to HK\$29,538,000; prepayments and other receivables increased HK\$4,536,000 to HK\$8,349,000. Save for the investment in pharmaceutical business in the second half year of approximately HK\$73,000,000, the Group does not have any capital commitment at present.

Current liabilities amounted to HK\$72,494,000, representing an increase of HK\$3,260,000 compared to the end of last year. Amongst them, accounts payable increased HK\$5,969,000 to HK\$27,247,000; other payables and accruals increased HK\$11,617,000 to HK\$29,383,000; interest-bearing bank loans and other borrowings dropped HK\$14,823,000 to HK\$11,448,000. Net current assets amounted to HK\$64,022,000, representing an increase of HK\$51,532,000 as compared to the end of last year. Most liabilities were short term in nature and the settlement currencies of which were mainly in Hong Kong dollars. Bank loans were to be calculated based on Hong Kong prime rate. As at 30 June 2002, the current assets of the Group improved and the current liabilities of the Group were stable. The current ratio (the ratio of current assets to current liabilities) was approximately 1.88 as compared with the same period of last year it improved significantly.

As for non-current assets, the amount was HK\$414,541,000, representing a decrease of HK\$9,288,000 as compared to the end of last year. Amongst them, deposits decreased HK\$11,500,000 to HK\$90,000,000; goodwill increased HK\$10,177,000 to HK\$17,409,000; fixed assets reduced HK\$7,382,000 to HK\$55,630,000. The Group's non-current liabilities were HK\$1,461,000, decreased by HK\$768,000 as compared to the end of last year, resulting in the overall gearing ratio (the ratio of total liabilities to shareholders' equity) to be approximately 16%.

In relation to contingent liabilities, as at 30 June 2002, bills discounted with recourse was HK\$4,734,000, increased by HK\$2,313,000 from last year. The Company has given the guarantees for the sum of HK\$50,000,000 to banks in connection with facilities granted to subsidiaries.

Generally speaking, the liquidity of the Group was able to maintain in a healthy condition and its financial resources kept on improving. The Board considered that raising funds by way of placing would enable the Group to allocate more resources to high earning potential and high growth businesses.

Capital structure and placing of shares

On 12 June 2002, the Group placed 50,900,000 new shares in the capital market and raised HK\$69,400,000 to meet the capital contribution requirement by the Group to Huayi and for general working capital purposes. In order to cope with the business development of the Group, the number of issued shares has increased to 571,650,673 shares as at 30 June 2002 by way of new share placement. The shareholders' equity amounted to HK\$476,044,000, representing an increase of 10% or HK\$42,825,000 as compared to end of last year.

Pledge of assets

As at 30 June 2002, the Group pledged assets to banks with total book value of HK\$12,590,000 (31 December 2001: HK\$21,924,000), including the industrial property located in Hong Kong with carrying amount of HK\$7,979,000 (31 December 2001: HK\$8,085,000) and bank deposits of approximately HK\$4,611,000 (31 December 2001: HK\$13,839,000), in order to secure against the Group's general bank facilities.

Prospects

The Group's new investment in the pharmaceutical business would benefit from China's accession to the World Trade Organization ("WTO"), the continuous steady growth of China's economy and increasing average per capita income of her population. Post WTO accession, the traditional Chinese medicine will face new challenges. However, the following factors enable the industry to maintain its competitive edge. In terms of sourcing, the State has decreed the protection of natural grown herbs and the country's ecology. In addition, a number of species having been successfully introduced from abroad for domestic farming. Dependence for imports is gradually reducing. In areas of research and development of traditional Chinese medicines, various enterprises have established research centers of international standards thereby enabling the development of quality medicines that can reach the significant overseas markets. Further, the protection of intellectual property rights provides the industry with much room and incentive for product development. It is expected that post WTO accession, the Chinese traditional medicine industry will continue to be an expanding pillar industry in China. The Group will leverage on the synergic alliance with China's leading pharmaceutical enterprise - China National Medicine, to explore more business opportunities including the extension of its sales/distribution network, research and development of new products, strengthening marketing and promotion to establish Chinese medicine brand recognition and the creation of numerous high potential investment opportunities. In addition, the Group is currently in negotiation with China National Medicine on several cooperative plans. Should there be any concrete business plans or any agreements being entered into, formal announcements will be published as soon as possible.

In respect of traditional manufacturing, the Group will strive to secure more original design manufacturing (ODM) and original equipment manufacturing (OEM) orders from internationally renowned clientele. With the additions of the new pharmaceutical business, which has demonstrated a strong profit foundation and excellent growth potential, the Group believes that the pharmaceutical investment will contribute respectable profits for the Group in the future.

As the economy of China continues to grow, many high return investment opportunities emerge. The Group would consider, where appropriate, to raise more funds from the capital market to strengthen the capital base and enhance the cash flow for the business diversification development of the Group. By investing in more high growth and high potential projects, the Group believes that return for shareholders can be maximized.

Employees

As at 30 June 2002, there were approximately 1,000 management, administrative and production staff located in Hong Kong and the PRC. The Company has adopted an employee share option scheme and housing benefits were provided for certain Hong Kong and PRC employees. Salaries of employee were determined taking into account the job performance and professional experience of the employees and the general practice within the industry. Since December 2000, all employees and directors in Hong Kong have joined the mandatory provident fund scheme implemented by the Hong Kong Government.

AUDIT COMMITTEE

The audit committee of the Company is comprised of two independent non-executive directors, Messrs. Choy Tak Ho and Tsui Chun Chung, Arthur. The audit committee, together with the management has examined the accounting polices and practice adopted by the Group and discussed and reviewed the financial statements of the unaudited consolidated interim results announced by the Group for the six months ended 30 June 2002.

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2002, the directors of the Company and their associates had the following beneficial interests in the share capital of the Company and its associated corporations, as recorded in the register required to be kept pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

Name of director	Number of ordinary shares in the Company	
	Personal interest	Corporate interest*
Butt Wing Han	8,915,250	2,983,500
Cheng Shu Wing	600,000	–
Guo Duen How, Tom	2,800,000	–
Leung Wah Chai	33,915,600	9,783,500
Kao Ying Lun	5,000,000	–
Wu Fred Fong	5,000,000	–

* *Kamga Investment Limited held 2,983,500 shares in the Company. Leung Wah Chai and Butt Wing Han are controlling shareholders and directors of Kamga Investment Limited. Bestbond Company Limited held 6,800,000 shares in the Company. Leung Wah Chai is a controlling shareholder and a director of Bestbond Company Limited.*

Save as disclosed above, none of the directors or their associates had any beneficial or other interest in the equity of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company, their respective 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.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, no person, other than the directors of the Company and the companies controlled by them, whose interests are disclosed above, had registered an interest in the share capital of the Company that was required to be recorded in the register maintained pursuant to Section 16 (1) of the SDI Ordinance.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during 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 for any part of the period for the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The non-executive directors of the Company are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-Laws of the Company.

By Order of the Board

Cheng Kwok Choi, Godwin

Executive Director

Hong Kong

23 September 2002