



**Bestway
International
Holdings
Limited**

**Interim
Report**

2002

The Board of Directors of Bestway International Holdings Limited (“the Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (hereinafter the “Group”) for the six months ended 30 September 2002 together with the comparative figures for the corresponding period in 2001. The unaudited results have not been audited by the Company’s auditors, but have been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited)	
		For the six months ended 30 September	
	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	3	143,550	129,246
Cost of sales		<u>(126,752)</u>	<u>(113,041)</u>
Gross profit		16,798	16,205
Other income and revenue	3	653	2,111
Selling and distribution costs		(2,104)	(1,925)
Administrative expenses		(16,049)	(19,392)
Other operating expenses		<u>(688)</u>	<u>(2,156)</u>
LOSS FROM OPERATING ACTIVITIES	4	(1,390)	(5,157)
Gain on waiver of debt		18,000	—
Finance costs	5	<u>(12,955)</u>	<u>(13,962)</u>
PROFIT/(LOSS) BEFORE TAX		3,655	(19,119)
Tax	6	—	(30)
PROFIT/(LOSS) BEFORE MINORITY INTEREST		3,655	(19,149)
Minority interests		<u>(36)</u>	<u>(204)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		<u>3,619</u>	<u>(19,353)</u>
Earnings/(Loss) per share — basic	7	<u>0.23 cents</u>	<u>(1.36 cents)</u>
— diluted	8	<u>0.22 cents</u>	<u>N/A</u>
Interim dividend per share		<u>—</u>	<u>—</u>

CONDENSED SUMMARY STATEMENT OF CHANGES IN EQUITY

(Unaudited)
For the six months
ended 30 September

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Total equity/(deficiency in assets) at 1 April	(75,627)	21,191
Effect of foreign exchange rate changes — net	409	322
Net profit/(loss) for the period attributable to shareholders	3,619	(19,353)
Issue of shares, including share premium	31,363	—
Share issue expenses	(1,584)	—
	<hr/>	<hr/>
Total equity/(deficiency in assets) at 30 September	(41,820)	2,160

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 September 2002 HK\$'000	(Audited) As at 31 March 2002 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		169,262	170,607
Investment properties		—	2,180
Interests in jointly-controlled entities		10,848	10,848
Long term investments		3,150	3,150
Prepaid rental		9,689	10,849
		<u>192,949</u>	<u>197,634</u>
CURRENT ASSETS			
Inventories		22,752	16,527
Accounts and bills receivable	9	36,108	38,187
Tax recoverable		1,642	1,642
Prepayments, deposits and other receivables		6,792	22,643
Cash and bank balances		4,770	6,904
		<u>72,064</u>	<u>85,903</u>
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		45,816	214,096
Finance lease payables	10	1,074	1,032
Accounts and bills payables	11	32,076	30,217
Tax payable		13,541	13,941
Other payables and accruals		49,175	50,261
Due to joint venture partners		2,433	2,433
		<u>144,115</u>	<u>311,980</u>
NET CURRENT LIABILITIES		<u>(72,051)</u>	<u>(226,077)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>120,898</u>	<u>(28,443)</u>
NON CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		55,389	28,996
Convertible bonds, secured	12	89,652	—
Finance lease payables	10	3,135	3,683
		<u>148,176</u>	<u>32,679</u>
MINORITY INTERESTS		<u>14,542</u>	<u>14,505</u>
		<u>(41,820)</u>	<u>(75,627)</u>
CAPITAL AND RESERVES			
Issued capital	13	28,512	142,560
Reserves	14	(70,332)	(218,187)
		<u>41,820</u>	<u>(75,627)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited)
For the six months
ended 30 September

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,822	19,392
NET CASH INFLOW FROM INVESTING ACTIVITIES	1,005	1,726
NET CASH OUTFLOW FROM FINANCING	<u>(4,961)</u>	<u>(18,709)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,134)	2,409
RECLASSIFICATION OF BANK OVERDRAFTS AS A RESULT OF DEBT RESTRUCTURING	64,007	—
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>(57,103)</u>	<u>(35,760)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>4,770</u></u>	<u><u>(33,351)</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	4,770	11,202
Bank overdrafts	<u>—</u>	<u>(44,553)</u>
	<u><u>4,770</u></u>	<u><u>(33,351)</u></u>

NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 September 2002

1. Principal Accounting Policies

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation used in the preparation of these financial statements are the same as those used in the Group's audited financial statements for the year ended 31 March 2002, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

— SSAP 1 (Revised)	:	"Presentation of Financial Statements"
— SSAP 11 (Revised)	:	"Foreign Currency Translation"
— SSAP 15 (Revised)	:	"Cash Flow Statements"
— SSAP 34	:	"Employee Benefits"

A summary of their major effects is as follows:

- (a) SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.
- (b) SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss accounts of subsidiary companies and jointly-controlled entities operating in the PRC are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

- (c) SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.
- (d) SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This has had no major impact on these condensed consolidated financial statements.

2. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the PVC sheets products segment engages in the manufacture and sale of PVC sheets;
- (b) the PVC floor coverings products segment engages in the manufacture and sale of PVC floor coverings; and
- (c) the corporate and others segment engages in investment holding; and also includes general corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(A) *Business Segments*

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	PVC Sheets		PVC floor coverings		Corporate and others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	122,797	109,041	20,753	20,205	—	—	143,550	129,246
Other revenue	240	—	55	—	322	2,097	617	2,097
Total revenue	<u>123,037</u>	<u>109,041</u>	<u>20,808</u>	<u>20,205</u>	<u>322</u>	<u>2,097</u>	<u>144,167</u>	<u>131,343</u>
Segment results	<u>10,378</u>	<u>10,536</u>	<u>(1,598)</u>	<u>(3,213)</u>	<u>(10,206)</u>	<u>(12,494)</u>	<u>(1,426)</u>	<u>(5,171)</u>
Interest income and								
Unallocated revenue							36	14
Gain on waiver of debt							18,000	—
Finance costs							(12,955)	(13,962)
Profit/(Loss) before tax							3,655	(19,119)
Tax							—	(30)
Profit/(Loss) before minority							3,655	(19,149)
interests								
Minority interests							(36)	(204)
Net profit/(loss) from ordinary								
activities attributable to								
shareholders							<u>3,619</u>	<u>(19,353)</u>
Segment assets	<u>185,159</u>	<u>195,047</u>	<u>36,884</u>	<u>37,442</u>	<u>32,122</u>	<u>40,200</u>	<u>254,165</u>	<u>272,689</u>
Interests in jointly-controlled								
entities	—	—	—	—	10,848	10,848	10,848	10,848
Total assets	<u>185,159</u>	<u>195,047</u>	<u>36,884</u>	<u>37,442</u>	<u>42,970</u>	<u>51,048</u>	<u>265,013</u>	<u>283,537</u>
Segment liabilities	<u>(104,570)</u>	<u>(243,031)</u>	<u>(16,667)</u>	<u>(16,295)</u>	<u>(171,054)</u>	<u>(85,333)</u>	<u>(292,291)</u>	<u>(344,659)</u>

(B) Geographical Segments

Over 90% of the Group's revenue, results and assets are attributable to its operations in the PRC.

3. Turnover and Revenue

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, but excludes intra-group transactions.

An analysis of the group's turnover and revenue is as follows:

	(Unaudited) For the six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Sale of goods:		
PVC sheets	122,797	109,041
PVC floor coverings	20,753	20,205
Total	<u>143,550</u>	<u>129,246</u>
Other revenue		
Gross rental income	—	509
Interest income	36	14
Sub-contracting fee income	234	234
Others	383	1,354
Total	<u>653</u>	<u>2,111</u>

4. Loss from Operating Activities

The Group's loss from operating activities is arrived at after charging:

	(Unaudited) For the six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Depreciation	9,369	10,265
Impairment of fixed assets	510	—
Loss on disposal of investment properties	<u>91</u>	<u>268</u>

5. Finance Costs

	(Unaudited) For the six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans, overdraft and other loans wholly repayable within five years	12,683	13,768
Interest on bank loans wholly repayable after five years	33	—
Interest on secured convertible bonds	59	—
Interest on finance leases	180	194
	<u>12,955</u>	<u>13,962</u>

6. Tax

	(Unaudited) For the six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Hong Kong	—	—
Overseas	—	30
	<u>—</u>	<u>30</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the relevant jurisdictions in which the Group operates. Deferred tax has not been provided as the effect of the timing differences is insignificant.

7. Basic Earnings/(Loss) per Share

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the period of HK\$3,619,000 (2001: loss of HK\$19,353,000) and the weighted average of 1,581,403,000 (2001: 1,425,600,000) ordinary shares in issue taking into account the open offer of shares during the period.

8. Diluted Earnings per Share

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders for the period of approximately HK\$3,678,000 and on 1,650,141,000 ordinary shares deemed to have been issued, taking into account the weighted average of 1,581,403,000 ordinary shares in issue during the period and assuming that all convertible bonds were converted on the date of issue on 19 September 2002.

The reconciliation of the number of ordinary shares is as follows:

	2002
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share	1,581,403,000
Weighted average number of ordinary shares assumed issued on deemed conversion of all convertible bonds	<u>68,738,000</u>
	<u><u>1,650,141,000</u></u>

A diluted loss per share amount for the six months ended 30 September 2001 has not been disclosed as no diluting events existed during the period.

9. Accounts and Bills Receivable

The aged analysis of the accounts and bills receivable at 30 September 2002 was as follows:

	As at 30 September 2002 HK\$'000	As at 31 March 2001 HK\$'000
Within 30 days	19,608	24,579
Between 31 to 60 days	9,260	5,214
Between 61 to 90 days	6,358	5,452
Over 90 days	4,302	6,901
	<u>39,528</u>	42,146
Less: Provision for doubtful debts	<u>(3,420)</u>	(3,959)
	<u><u>36,108</u></u>	<u><u>38,187</u></u>

10. Finance Lease Payables

The total future minimum lease payments under finance leases at the balance sheet date are as follows:

	As at 30 September 2002 HK\$'000	As at 31 March 2001 HK\$'000
Amounts payable:		
Within one year	1,372	1,372
In the second year	1,372	1,372
In the third to fourth years, inclusive	2,101	2,788
Total minimum finance lease payments	4,845	5,532
Future finance charges	(636)	(817)
Total net finance lease payables	4,209	4,715
Portion classified as current liabilities	(1,074)	(1,032)
Long term portion	3,135	3,683

11. Accounts and Bills Payable

The aged analysis of the accounts and bills payable at 30 September 2002 was as follows:

	As at 30 September 2002 HK\$'000	As at 31 March 2002 HK\$'000
Within 30 days	10,426	13,168
Between 31 to 60 days	6,567	3,524
Between 61 to 90 days	3,505	3,316
Over 90 days	11,578	10,209
	32,076	30,217

12. Convertible Bonds, Secured

	As at 30 September 2002 <i>HK\$'000</i>	As at 31 March 2002 <i>HK\$'000</i>
3% First Tranche Secured Convertible Bonds ("CB One") Issued during the period and at end of period	40,000	—
1.5% Second Tranche Secured Convertible Bonds ("CB Two") Issued during the period and at end of period	49,652	—
	<u>89,652</u>	<u>—</u>

Pursuant to the Debt Rescheduling and Restructuring Deed entered into with the Participating Banks dated 30 May 2002, HK\$40,000,000 face value of 3% CB One and HK\$49,652,372 face value of 1.5% CB Two were issued by the Company on the date of completion on 19 September 2002.

The CB One, maturing 7 years from 19 September 2002, bears interest at 3% per annum with conversion rights at a price of HK\$0.05 per share. The outstanding amounts of the CB One will be redeemed by the Company on the maturity date.

The CB Two, maturing 7 years from 19 September 2002, bears interest at 1.5% per annum with conversion rights at a price HK\$0.20 per share. The outstanding amounts of CB Two will be mandatorily converted into shares of HK\$0.01 each of the Company on the maturity date.

Both CB One and CB Two were secured by all the Group's assets by way of debentures executed in favour of the Participating Banks.

Details of both CB One and CB Two were set out in the Company's Circular to shareholders dated 5 July 2002.

13. Share Capital

	Number of ordinary shares	HK\$'000
<i>Authorised :</i>		
Ordinary shares of HK\$0.10 each as at 1 April 2002	2,400,000,000	240,000
Increase arising from subdivision of ordinary shares	<u>21,600,000,000</u>	<u>—</u>
Ordinary shares of HK\$0.01 each as at 30 September 2002	<u>24,000,000,000</u>	<u>240,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each as at 1 April 2002	1,425,600,000	142,560
Reduction in par value	—	(128,304)
Issue of shares under the open offer	<u>1,425,600,000</u>	<u>14,256</u>
Ordinary shares of HK\$0.01 each as at 30 September 2002	<u>2,851,200,000</u>	<u>28,512</u>

At the special general meeting held on 29 July 2002, the following special resolutions were passed:

- (1) that the nominal value of each of the issued shares in the capital of the Company be reduced from HK\$0.10 each to HK\$0.01 each by cancelling HK\$0.09 paid-up capital per issue share;
- (2) that each of the unissued shares of HK\$0.1 each in the authorised share capital of the Company be subdivided into 10 new shares of HK\$0.01 each; and
- (3) that the credit of an amount of approximately HK\$128,304,000 be transferred to the Company's accumulated losses reserve accounts.

14. Reserves

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2002	131,062	52,743	4,581	1,342	186	(16,854)	(391,247)	(218,187)
Reduction of issued share capital to offset accumulated losses	—	—	—	—	—	—	128,304	128,304
Issue of shares	15,523	—	—	—	—	—	—	15,523
Exchange adjustments	—	—	—	—	—	409	—	409
Net profit for the period ended 30 September 2002	—	—	—	—	—	—	3,619	3,619
At 30 September 2002	<u>146,585</u>	<u>52,743</u>	<u>4,581</u>	<u>1,342</u>	<u>186</u>	<u>(16,445)</u>	<u>(259,324)</u>	<u>(70,332)</u>
Reserves retained by:								
Company and subsidiaries	146,585	52,743	4,581	351	—	(16,274)	(258,605)	(70,619)
Jointly-controlled entities	—	—	—	991	186	(171)	(719)	287
At 30 September 2002	<u>146,585</u>	<u>52,743</u>	<u>4,581</u>	<u>1,342</u>	<u>186</u>	<u>(16,445)</u>	<u>(259,324)</u>	<u>(70,332)</u>

15. Post Balance Sheet Events

Subsequent to the balance sheet date, the Group completed the transfer to a Participating Creditor the ownership of its charged property which was subsequently disposed of at a consideration of HK\$5,790,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

During the period, the Group recorded a consolidated turnover of HK\$143,550,000 (2001: HK\$129,246,000) which represented an increase in turnover of approximately 11% over that achieved for the corresponding period last year. The net profit attributable to shareholders was HK\$3,619,000 compared with the loss of HK\$19,353,000 incurred for the corresponding period last year.

The Group's return to profit during the period was mainly due to a combination of (i) cost reductions; (ii) increased turnover and (iii) a gain from a waiver of debt of HK\$18,000,000 arising from the completion by the Group of its debt restructuring with its banks on 19 September 2002.

Business Review

The Group continues its principal activities in the manufacture of PVC sheetings and PVC floor coverings in the PRC.

PVC Sheetings

During the period under review, the Group was able to increase its sales of PVC sheetings by approximately 12.6% to HK\$123 million in a marketplace which saw a softening US economy with chronic port disruptions and the threat of a war against Iraq. The Group has been conscious of these adverse changes and has responded with extra efforts in strengthening customer relations, added flexibility in accommodating orders of short notices, reaching out to a broader customer base, maintaining consistency in quality and observing more stringent cost control measures in the two facilities in Dongguan, PRC.

PVC Floor Coverings

The Group maintained its market position of quality floor coverings in the Northeastern China market. The Beijing factory marginally increased its sales by approximately 2.7% over the corresponding period to HK\$21 million against strong domestic competition for its flooring products. During the period under review, the product mix of the factory was revamped to completely eliminate the unprofitable product lines with the addition of a new format of seamless floor covering and a non-slip matting underlay.

During the period under review, the Group was able to increase its sales in both product categories whilst also managed to trim down its expenses, resulted in its loss from the operating activities being reduced from \$5,157,000 last year to HK\$1,390,000 this year.

Prospects

The Group successfully completed the Debt Rescheduling and Restructuring Deed ("DRD") on 19 September 2002 with its Hong Kong bank creditors. Under the terms of the DRD, the financial position of the Group has been given a new stability. Although the Group has been receiving exceptional support from its vendors and customers, the satisfactory completion of the DRD has helped strengthening their confidence and will allow the Group to operate normally for the years to come.

The Group is concentrating on rebuilding its core businesses through (i) reaching out to a broader industrial user base of its PVC sheetings within domestic PRC; (ii) increasing its marketing and development efforts in the PVC floor covering and matting products; (iii) strengthening the service level to our existing customers; (iv) maintaining consistency in quality of all our product lines; (v) commencing the marketing and selling of our products to overseas users and (iv) developing new products to enable the Group to enter new markets and to achieve higher value-added production.

While the Group expects that the current global economic downturn, fluctuating prices in oil and therefore our raw materials, and excess capacity will continue to affect our short term business prospects, it believes that it is now well prepared to meet these challenges.

Financial Review

Debt Restructuring

During the period, the Group entered into the DRD and completed the same on 19 September 2002. The debt restructuring under the DRD involved, amongst other things, a Capital Reduction and Subdivision, an Open Offer which raised HK\$31.4 million for bank debt reduction, a waiver of bank debt of HK\$18 million and the restructuring of (i) HK\$36 million of bank debt into a 6 year term loan; (ii) HK\$89.52 million of bank debt into two tranches of 7-year convertible bonds and (iii) HK\$11.05 million of bank debt into a short term loan to be repaid from the sale of specific secured assets, all at reduced interest rates.

Under the DRD, the reduction in the Group's bank indebtedness and the interest rates applicable thereto, will result in a significant decrease in the Group's interest cost over the next 7 years, which will, in turn, have a positive effect on the Group's earnings and net asset value. In addition, the majority of the Group's bank debts will not be mature for various periods of up to seven years, meaning that the Group will be able to repay these debts from the cash flows generated by its core business as and when they fall due, or will otherwise be converted into equity under the Secured Convertible Bonds.

Liquidity and other Financial Resources

As at 30 September 2002 the Group's bank and other borrowings amounted to HK\$195,066,000 which is a reduction of HK\$46,084,000 from its borrowings of HK\$241,150,000 at the same time last year. The reduction in the Group's borrowings is due to the completion of the debt restructuring on 19 September 2002.

Of the Group's total borrowings at 30 September 2002:

- (i) HK\$101,205,000 is at floating interest rates and HK\$93,861,000 is at fixed interest rates.
- (ii) 72.3% is denominated in HK\$ and 27.7% is denominated in Rmb.

As at 30 September 2002, the Group's deficiency in assets and net current liabilities were approximately \$41,820,000 (31 March 2002: HK\$75,627,000) and HK\$72,051,000 (31 March 2002: HK\$226,077,000) respectively.

Due to the capital deficiency position at both 31 March 2002 and 30 September 2002, the gearing ratio, calculated as a percentage of the Group's consolidated borrowings and finance lease payables to net worth, remained a meaningless figure.

Charges on Group Assets

As at 30 September 2002 the Group's bank and other borrowings including the two tranches of Convertible Bonds amounted to HK\$195,066,000.

In addition to all the then existing guarantees and securities as disclosed in Note 23 of the financial statements for the year ended 31 March 2002 which remain in full force and effect, the Group's assets were charged by way of debentures as security for all the restructured debts.

Capital Structure

During the period, the Group completed:

- (i) a Capital Reduction and Subdivision which had the effect of (a) reducing the paid up capital and nominal value of the issued share capital of the Company from HK\$0.10 per share to HK\$0.01 per share and (b) subdividing each of the unissued shares of HK\$0.10 each for the authorised share capital of the Company into ten shares of HK\$0.01. Details of the above were set out in the Company's circulars to shareholders dated 16 October 2001 and 5 July 2002;
- (ii) an Open Offer to raise HK\$31.4 million which was applied to the reduction of the banks debt under the terms of the DRD. Details of the Open Offer were set out in the Company's prospectus dated 16 August 2002;

- (iii) the issue to the Hong Kong creditor banks of a first tranche 3% Secured Convertible Bonds (the "CB One") of HK\$40 million face value, maturing 7 years from 19 September 2002 with conversion rights at a price of HK\$0.05 per share. The outstanding amounts of the CB One will be redeemed by the Company on the maturity date; and
- (iv) the issue to the Hong Kong creditor banks of a second tranche 1.5% Secured Convertible Bond of HK\$49.65 million (the "CB Two") maturing 7 years from 19 September 2002 with conversion rights at a price of HK\$0.20 per share. The outstanding amounts of CB Two will be mandatorily converted into shares of HK\$0.01 each of the Company on the maturity date.

Exposure to Foreign Exchange Fluctuation

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and U.S. dollars. Inasmuch as the Hong Kong dollar is pegged to the U.S. dollar and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and the Renminbi, the Group's exposure to currency exchange risk was minimal.

Contingent Liabilities

The contingent liabilities of the Group have not changed materially from those disclosed in last year's annual report.

Employees

As at 30 September 2002, the Group had approximately 400 employees full time managerial, administrative and manufacturing employees. The Group affords competitive remuneration packages to its employees based on prevailing and industry practice and provides most of its employees in the PRC with rent-free quarters and messings. Compensation policies are reviewed regularly and are designed to reward and motivate productivity and performance.

No share options were granted during the period under review.

INTERIM DIVIDEND

The Directors have resolved not to pay an interim dividend for the six months ended 30 September, 2002.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2002, the interests of the directors in the shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

The Company

Director		Number of ordinary shares held and nature of interest	
		Personal	Corporate
Tang Kuan Chien	<i>Note</i>	3,598,000	757,235,092

Note: The corporate interest shares are held as to 235,065,000 shares by Bestway Development Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Tang Kuan Chien and as to 522,170,092 shares by Best Online Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Ms. Wang Ya Chin who is the wife of Mr. Tang.

SHARE OPTION SCHEME

Pursuant to the Company's share option scheme approved on 13 September 1995, the board of directors may, on or before 12 September 2005, grant options to employees and executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company. The subscription price is the higher of 80% of the average of the closing share price on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares. The maximum number of shares which can be granted under the scheme may not exceed 10% of the issued share capital of the Company from time to time. Under the scheme, options granted to the following directors which remained outstanding at 30 September 2002 were as follows:

Name of director	Number of share options at 31 March 2002	Adjustment* during the period	Number of share options outstanding at 30 September 2002	Exercise period of share options	Exercise price of share options* HK\$
Tang Kuan Chien	10,000,000	10,000,000	20,000,000	27-2-00 to 26-2-03	0.105
Chan Ying Kay, Keith	10,000,000	10,000,000	20,000,000	27-2-00 to 26-2-03	0.105
Chang Bin Lin	18,200,000	18,200,000	36,400,000	29-3-00 to 28-3-03	0.105
	<u>38,200,000</u>	<u>38,200,000</u>	<u>76,400,000</u>		

* The exercise price and the number of shares to be subscribed for under share options have been adjusted as a result of the Open Offer, details of which were disclosed in the Company's Prospectus dated 16 August 2002 to shareholders.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted to the directors because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors are unable to arrive at an assessment of the value of these share options.

With effect from 1 September 2001, the Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Stock Exchange on the date of grant and the average closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, the Company has not granted any options on or after 1 September 2001.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2002, 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:

Shareholder		Number of ordinary shares held	%
Wang Ya Chin	<i>Note</i>	760,833,092	26.68
Best Online Limited		522,170,092	18.31

Note: The interests of Ms. Wang Ya Chin include 522,170,092 shares held by Best Online Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Ms. Wang and the interests of Mr. Tang Kuan Chien who is the husband of Ms. Wang.

Save as disclosed above, no persons, other than the directors of the Company, whose interests are set out in the section “Directors’ interests in shares” above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S SHARE

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed securities during the period.

AUDIT COMMITTEE

The Company established an audit committee on 1 April 1999. The Group’s financial statements for the six months ended 30 September 2002 have been reviewed by the committee. The principal activities of the committee include the review and supervision of the Group’s financial reporting process and internal controls.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company had not been for any part of the accounting period under review in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange.

Independent non-executive directors of the Company are not appointed for specific terms because all of the directors, without limitation to independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s bye-laws.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best of Practice throughout the accounting period covered by the interim report, for the purpose of reviewing and providing supervision on the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors and meets at least twice annually to perform its duties.

On behalf of the Board

Bestway International Holdings Limited

Tang Kuan Chien

Chairman

Hong Kong, 28 November 2002