

YUGANG

YUGANG INTERNATIONAL LIMITED



I N T E R I M R E P O R T 2 0 0 3

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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

Independent 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

Ground Floor Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Registered Office

Clarendon House

Church Street

Hamilton HM11

Bermuda

Head Office and Principal Place of Business in Hong Kong

Rooms 3301-3307

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first half of the year, the economic performance of Hong Kong was seriously impacted by the outbreak of Severe Acute Respiratory Syndrome (SARS) in mid-March. The particular three sectors including retail sector, export sector and commercial leasing sector were affected the most. This has adversely affected the performance of the three major businesses of the Group. The demand for automobile parts also remained sluggish for the period and the Group's turnover for the period decreased to HK\$101.7 million, a drop of 18% from HK\$124 million of last corresponding period.

Packaging Business

The packaging business is carried on by a subsidiary, Qualipak International Holdings Ltd ("Qualipak"), a company listed on the main board of the stock exchange in Hong Kong.

During the period, the global demand for packaging products continued to be low. The outbreak of SARS has brought further disruption to consumption, travel and trade. Overseas buyers postponed their trips, delayed business decisions and order placing. The sale of packaging products for the period therefore decreased to HK\$91.3 million, representing a fall of 8.8% from the last corresponding period. The decline in sales mainly took place in the United States. Contrastly, the export sales to Europe had improved. The net profit of Qualipak for the period was HK\$8.7 million, a decrease of HK\$3.1 million or 26.3% from the last corresponding period.

Property Investment Business

The Group's property investment is held through a substantial holding of an equity interest in an associate, Y.T. Realty Group Limited ("Y.T. Realty"), a company listed on the main board of the stock exchange in Hong Kong.

The three major investment properties held by Y.T. Realty include whole block of Century Square and Prestige Tower situated in the core of Central District and Tsimshatsui respectively and the 2nd Floor of New Mandarin Plaza situated in Tsimshatsui.

During the first half of the year, Y.T. Realty recorded a net profit of HK\$25.3 million, representing a decrease of 2.8% from the last corresponding period. The gross rental income from investment properties for the period was HK\$45.1 million, 22.5% lower than the corresponding period of last year. The outbreak of SARS in mid-March this year adversely affected the leasing activities of the investment properties. Some tenants were severely affected by SARS and turned to landlords for assistance such as granting of rent concession for a short period. Despite the difficult environment faced by retail tenants, most of the retail tenants of Y.T. Realty are of top brandings and have solid financial backgrounds to weather a crisis like SARS. The leasing activities of Y.T. Realty gradually returned to normal after the World Health Organization's decision to remove Hong Kong from the list of SARS affected areas in late June.

Infrastructure Business

The Group has an indirect interest in an infrastructure business that is currently carried on by The Cross-Harbour (Holdings) Ltd ("Cross-Harbour"), a company listed on the main board of stock exchange in Hong Kong.

The implementation of cost control by Cross-Harbour at previous years has gradually shown sign of improvement in its operating margin. However, the outbreak of SARS in mid-March adversely affected the consumer confidence and the sentiment of retail market turned to be bearish. More importantly, the overall cross harbour traffic during the crisis period of SARS suffered a significant decline in its daily throughput. Cross-Harbour therefore reported a net profit of HK\$42.2 million for the period, representing a decrease of 9.2% from last corresponding period.

PROSPECT

Following the recent signs of economic stability shown in the United States, Qualipak has strived to extend their reach to some of the brand-named customers in both the United States and European markets in order to broaden their customer base. Additionally, Qualipak intends to drive up sales revenue by entering into a new market of non-luxury gift packaging in order to capture new market opportunities. Supported with an excellent and experienced design team, Qualipak will be able to develop new product lines to meet wide variety of customers' needs. Given its continuous efforts in improving operating margin and focusing on new product developments, Qualipak will be well positioned to cope with the challenges ahead.

Y.T. Realty will strive to maintain a high level of occupancy rate for its investment properties through various policies such as proactive leasing approach, enhancement in upgrading the building and improvement of the services provided to tenants. Given higher unemployment rate and fiscal budget deficit of Hong Kong, a prudent investment approach will be adopted and only projects with stable investment return will be considered.

As the economic outlook of Hong Kong gradually improves from the recently signed Closer Economic Partnership Arrangement (CEPA) and the planned gradual relaxation of travel policy restriction for the residents of the Mainland, the Group remains cautiously optimistic about the future business development.

The Group will also continue its long-term strategy to explore any business opportunities in strategic acquisition of equity interests in Hong Kong or abroad. I am confident that we have a clear focus as well as sound financial and management capabilities to face any future challenges as well as opportunities.

FINANCIAL REVIEW

During the first half of the year, the Group recorded a loss attributable to shareholders of HK\$26.4 million. The loss was resulted mainly attributable to the provision for unrealized losses on securities investment of HK\$17.9 million and realized loss on disposal of other investments of HK\$15.7 million during the period. The Group has held a portfolio of securities investment for several years. The position of securities investment was frequently reviewed and the unrealized loss was resulted mainly from the volatility of securities prices. The Group would have recorded a net profit of HK\$7.2 million for the period if the effect of the unrealized loss on the periodic revaluation of securities investment and the realized loss on disposal of other investments were excluded.

The other revenue and gains, which comprised mainly interest income from other investments and loan receivable, amounted to HK\$20.6 million, representing a decrease of 12.7% from HK\$23.6 million recorded in the last corresponding period due to lower interest rate maintained for the period.

During the period, general and administrative expenses were reduced by an amount of approximately HK\$5 million, 13.2% lower than last corresponding period due to the exercise of tighter control over the operating expenses of the Group. Finance cost was substantially reduced by an amount of HK\$5.8 million, representing a decrease of 68.9% as a result of the full redemption of convertible note borrowing of HK\$219.7 million in September last year.

As at 30 June 2003, the Group's net asset value was HK\$1,690.4 million and had a net asset value per share of HK\$0.2. The Group's total asset and liabilities (excluding minority interest of HK\$152.5 million) were HK\$2,069.6 million and HK\$226.7 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group's cash and cash equivalent was HK\$527.4 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 6%. The Group has a working capital ratio of approximately 9.3. All of these indicated the Group has sufficient working capital to support its operation.

As at 30 June 2003, the Group had a short-term bank borrowing of HK\$15 million and nil contingent liabilities. The remaining outstanding debt of the Group was a convertible note of HK\$100 million.

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

CAPITAL STRUCTURE

In July 2001, the Company issued 1,312,586,000 warrants through a private placement at an issue price of HK\$0.02 per warrant. An aggregate of 1,312,586,000 shares will be issued upon exercise of the subscription rights attaching to the warrants to subscribe for new shares of the Company at an initial price of HK\$0.09 per share (subject to adjustment). No warrants were exercised during the period and the warrants have already been expired on 18 July 2003.

The Company also issued a convertible note of principal amount of HK\$100,000,000 with maturity date on 31 July 2004. The convertible note can be converted into ordinary shares at a conversion price of HK\$0.10 per share during the period from 31 July 2001 to 31 July 2002, HK\$0.11 per share for the period from 1 August 2002 to 31 July 2003 and HK\$0.12 per share for the period from 1 August 2003 to 31 July 2004, subject to adjustment. The total number of shares of the convertible note will change with the change of conversion price of the convertible note from year to year. There was no conversion of the note during the period.

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

PLEDGE OF ASSETS

As at 30 June 2003, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$75,096,000 and time deposits of approximately HK\$8,073,000 as security for general banking facilities granted to the Group.

EMPLOYEES

As at 30 June 2003, the Group employed approximately a total of 88 employees in Hong Kong and a workforce of 3,301 in 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.

SIGNIFICANT INVESTMENTS

On 18 June 2003, the Company's investment in convertible note of Qualipak with a principal amount of HK\$150,000,000 was due for redemption. The Company then exercised the conversion rights entitled to subscribe for 1,562,500,000 shares in Qualipak. The shareholding interest in Qualipak was subsequently increased to 69.87%.

As at 30 June 2003, the Group maintained its investment in equity interest of Y.T. Realty with a carrying value of HK\$612.4 million. The net profit of Y.T. Realty for the period was HK\$25.3 million. As at 30 June 2003, the Group held a portfolio of listed securities with market value as HK\$209.4 million. The dividend income from the listed securities for the period was HK\$0.4 million.

INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June 2003, the interests or short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

The Company

(I) *Interests in ordinary shares of the Company*

Name of Directors	Number of shares held	Holding capacity	Percentage of issued share capital
Cheung Chung Kiu	3,194,434,684	Corporate <i>(Note 1)</i>	37.79%
	53,320,000	Personal	0.63%
Yuen Wing Shing	5,000,000	Personal	0.06%
Zhang Qing Xin	13,600,000	Personal	0.16%
Lam Hiu Lo	41,800,000	Personal	0.49%
Liang Kang	34,664,000	Personal	0.41%

Note:

- (1) The voting rights of these shares are exercisable by Chongqing Industrial Limited. Mr. 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 controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

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

(II) Interests in underlying shares of the Company

(i) *Options to subscribe for ordinary shares of the Company*

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

(ii) *Convertible notes to subscribe for ordinary shares of the Company*

Name of Director	Principal amount <i>HK\$</i>	Number of underlying shares held	Holding capacity	Percentage of issued share capital
Cheung Chung Kiu	100,000,000	909,090,909	Corporate <i>(Note 1)</i>	10.75%

Note:

- (1) The convertible note was held by Timmex Investment Ltd, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%. The percentage of issued share capital of interests in ordinary shares and underlying shares of Mr. Cheung Chung Kiu in aggregate is 49.29%.

Associated Corporation

(I) Interests in ordinary shares of Qualipak International Holdings Limited, a listed subsidiary of the Company

Name of Director	Number of shares held	Holding capacity	Percentage of issued share capital
Cheung Chung Kiu	2,752,396,360	Corporate <i>(Note1)</i>	69.87%
Lee Ka Sze, Carmelo	1,000,000	Family	0.03%

Note:

- (1) The 2,752,396,360 shares were held by Regulator Holdings Limited (“Regulator”) as to 2,626,108,360 shares and Bookman Properties Limited (“Bookman”) as to 126,288,000 shares. Regulator and Bookman are indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

(II) *Interests in ordinary shares of Y.T. Realty Group Limited, a listed associate of the Company*

Name of Director	Number of shares held	Holding capacity	Percentage of issued share capital
Cheung Chung Kiu	273,000,000	Corporate (<i>Note1</i>)	34.25%

Note:

- (1) The 273,000,000 shares were held by Funrise Limited (“Funrise”) and Funrise is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

Save as disclosed above, none of the directors or the chief executives or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

GRANT OF DIRECTORS' RIGHTS TO ACQUIRE SHARES BY THE COMPANY

Pursuant to the Company's share option scheme (the "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 Company's 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\$ **	Percentage of issued share capital
Directors						
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	0.12%
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	0.09%
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	0.12%
Liang Kang	6,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144	0.07%
Other employees*						
In aggregate	<u>199,000,000</u>	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144	2.35%
	<u><u>233,000,000</u></u>					

* 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.

No options expired, and no options were granted, exercised or cancelled during the period.

Details of the Scheme are set out in pages from 60 to 63 of Annual Report 2002.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons (other than director or chief executive of the Company) who have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Number of shares/ underlying shares held	Percentage of issued share capital
Palin Holdings Limited (<i>Note 1</i>)	3,194,434,684	37.79%
Chongqing Industrial Limited (<i>Note 1</i>)	3,194,434,684	37.79%
Timmex Investment Limited (<i>Note 2</i>)	909,090,909	10.75%

Notes:

1. The voting rights of these shares are exercisable by Chongqing Industrial Limited which is controlled by Mr. Cheung Chung Kiu.
2. The interest represents the shares issuable upon the exercise of the conversion right attaching to the convertible note of HK\$100,000,000 that is held by Timmex Investment Ltd, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.

Save as disclosed above, none of the substantial shareholders had a short position in the shares and underlying shares of the Company as required to be recorded in the register maintained by the Company pursuant to section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 2003.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, at any time during the six months ended 30 June 2003, 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
5 September 2003

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 2003 together with the unaudited comparative figures (as restated) for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Notes	For the six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000 (Restated)
TURNOVER		101,657	124,027
Cost of sales		(78,913)	(96,518)
Gross profit		22,744	27,509
Other revenue and gains		20,567	23,623
Selling and distribution costs		(3,211)	(3,522)
Administrative expenses		(32,842)	(37,817)
Other operating expenses, net	3	(34,534)	(68,982)
LOSS FROM OPERATING ACTIVITIES		(27,276)	(59,189)
Finance costs	4	(2,599)	(8,349)
Share of results of:			
A jointly-controlled entity		(642)	(1,367)
Associates		11,047	7,963
LOSS BEFORE TAX		(19,470)	(60,942)
Tax	6	(2,862)	(3,484)
LOSS BEFORE MINORITY INTERESTS		(22,332)	(64,426)
Minority interests		(4,092)	(5,781)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(26,424)	(70,207)
BASIC LOSS PER SHARE	8	(0.31) HK cents	(0.83) HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2003

	30 June 2003	31 December 2002
<i>Notes</i>	(Unaudited) HK\$'000	(Audited) HK\$'000 (Restated)
NON-CURRENT ASSETS		
Fixed assets	222,572	234,656
Interests in associates	612,382	607,821
Interest in a jointly-controlled entity	3,966	4,660
Other assets	60,768	41,566
	899,688	888,703
CURRENT ASSETS		
Other investments	170,656	212,749
Convertible debentures and notes	—	53,000
Stocks	45,051	44,099
Loans receivable	351,497	212,520
Trade debtors	22,622	23,579
Other debtors, deposits and prepayments	45,872	67,546
Bills receivable	6,792	12,271
Pledged time deposits	8,073	8,044
Time deposits	474,208	539,048
Cash and bank balances	45,107	47,727
	1,169,878	1,220,583
CURRENT LIABILITIES		
Bills payable and trust receipt loans, secured	1,373	—
Trade creditors	15,887	15,016
Tax payable	67,869	66,886
Other payables	4,228	5,171
Accrued expenses	14,277	18,099
Customers' deposits received	7,303	8,845
Bank borrowings	15,000	—
Current portion of obligations under hire purchase contracts	9	9
	125,946	114,026
NET CURRENT ASSETS	1,043,932	1,106,557
TOTAL ASSETS LESS CURRENT LIABILITIES	1,943,620	1,995,260

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

30 June 2003

	30 June 2003	31 December 2002
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
		(Restated)
NON-CURRENT LIABILITIES		
Long term portion of obligations under hire purchase contracts	8	13
Convertible notes	100,000	100,000
Deferred tax	783	1,455
	<hr/> 100,791	<hr/> 101,468
 MINORITY INTERESTS	 152,471	 177,010
	<hr/> 1,690,358	<hr/> 1,716,782
 CAPITAL AND RESERVES		
Issued capital	84,533	84,533
Reserves	1,605,825	1,632,249
	<hr/> 1,690,358	<hr/> 1,716,782

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	For the six months ended 30 June	
	2003	2002
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,185)	(13,002)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(72,602)	(120,281)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>6,356</u>	<u>51,020</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(67,431)	(82,263)
Cash and cash equivalents at beginning of period	<u>594,819</u>	<u>648,102</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>527,388</u></u>	<u><u>565,839</u></u>
 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	45,107	31,417
Non-pledged time deposits	474,208	526,425
Pledged time deposits	<u>8,073</u>	<u>7,997</u>
	<u><u>527,388</u></u>	<u><u>565,839</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

Group	Unaudited six months ended 30 June 2003						Total HK\$'000
	Issued capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Warrant subscription reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	
At 1 January 2003:							
As previously reported	84,533	840,629	760,799	25,674	(419)	7,689	1,718,905
Prior year adjustment:							
SSAP 12 — restatement of deferred tax (note 1)	—	—	—	—	—	(2,123)	(2,123)
As restated	84,533	840,629*	760,799*	25,674*	(419)*	5,566*	1,716,782
Net loss for the period	—	—	—	—	—	(26,424)	(26,424)
At 30 June 2003	<u>84,533</u>	<u>840,629*</u>	<u>760,799*</u>	<u>25,674*</u>	<u>(419)*</u>	<u>(20,858)*</u>	<u>1,690,358</u>
Group	Unaudited six months ended 30 June 2002						Total HK\$'000
	Issued capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Warrant subscription reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	
At 1 January 2002:							
As previously reported	84,533	840,629	760,799	25,674	(419)	159,109	1,870,325
Prior year adjustment:							
SSAP 12 — restatement of deferred tax (note 1)	—	—	—	—	—	(2,827)	(2,827)
As restated	84,533	840,629	760,799	25,674	(419)	156,282	1,867,498
Net loss for the period (as restated)	—	—	—	—	—	(70,207)	(70,207)
At 30 June 2002	<u>84,533</u>	<u>840,629</u>	<u>760,799</u>	<u>25,674</u>	<u>(419)</u>	<u>86,075</u>	<u>1,797,291</u>

* These reserve accounts comprised the consolidated reserve of HK\$1,605,825,000 (31 December 2002: HK\$1,632,249,000) in the condensed consolidated balance sheet.

NOTES TO INTERIM FINANCIAL STATEMENTS

30 June 2003

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 Accountants (“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 2002, except that the Group has changed its accounting policy for taxation to comply with SSAP 12 (Revised), “Income taxes”, issued by the HKSA, which are effective for accounting periods commencing on or after 1 January 2003. On the adoption of SSAP 12 (Revised), deferred tax assets and liabilities relating to differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. This change in accounting policy has been applied retrospectively such that the comparative amounts presented have been restated to conform to the changed policy. Accordingly, the Group’s retained profits at 1 January 2002 and 2003 have been reduced by HK\$2,827,000 and HK\$2,123,000, respectively, which represent the Group’s share of the unprovided net deferred tax liabilities of associates. The previously reported net loss of the Group for the six months ended 30 June 2002 has been increased by HK\$685,000 to reflect movement in the deferred tax account of the associates during the period.

2. SEGMENTAL INFORMATION

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

Group

	Turnover		Contribution to loss from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000 (Restated)
By activity:				
Trading of automobile parts	10,100	23,528	(14,025)	(26,083)
Manufacturing and sale of packaging products	91,300	100,149	14,998	16,495
Property and other investments	257	350	(37,408)	(60,441)
	<u>101,657</u>	<u>124,027</u>	<u>(36,435)</u>	<u>(70,029)</u>
Unallocated expenses, net			(5,684)	(8,771)
Interest and dividend income			14,843	19,611
Finance costs			(2,599)	(8,349)
Share of results of:				
Jointly-controlled entity			(642)	(1,367)
Associates			11,047	7,963
Loss before tax			(19,470)	(60,942)
Tax			(2,862)	(3,484)
Minority interests			(4,092)	(5,781)
Net loss from ordinary activities attributable to shareholders			<u>(26,424)</u>	<u>(70,207)</u>
			Turnover	
			For the six months ended 30 June	
			2003	2002
			(Unaudited)	(Unaudited)
			HK\$'000	HK\$'000
By geographical area:				
Hong Kong			19,762	21,273
Mainland China			10,100	23,528
North and South Americas			33,520	44,849
Europe			30,174	25,809
Others			8,101	8,568
			<u>101,657</u>	<u>124,027</u>

3. OTHER OPERATING EXPENSES, NET

	Group	
	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for doubtful debts, net	(868)	(10,245)
Loss on deemed disposal of partial interest in subsidiaries	—	(2,543)
Unrealised holding losses on other investments	(17,920)	(57,147)
Gain/(loss) on disposal of other investments	(15,746)	959
Others	—	(6)
	(34,534)	(68,982)

4. FINANCE COSTS

	Group	
	For the six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within one year	118	420
Interest on convertible notes	2,479	7,926
Hire purchase interest	2	3
	2,599	8,349

5. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortisation of negative goodwill of approximately HK\$6,116,000 and HK\$3,742,000 (2002: HK\$5,313,000 and HK\$3,476,000) were charged and credited to the condensed consolidated profit and loss account, respectively.

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Group:		
Hong Kong	1,180	1,095
Deferred tax	(672)	—
Share of tax attributable to:		
Jointly-controlled entity	52	8
Associates	2,302	2,381
	<hr/> 2,862 <hr/>	<hr/> 3,484 <hr/>
Tax charge for the period		

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

Certain subsidiaries of Qualipak International Holdings Limited ("Qualipak"), a subsidiary of the Company, are in discussion 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 of Qualipak, 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 (as set out in the paragraph headed "Other Information" in Appendix 5 of Qualipak'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 of Qualipak.

7. DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 June 2003 (2002: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share for the period ended 30 June 2003 is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$26,424,000 (2002: restated net loss of HK\$70,207,000) and the weighted average number of 8,453,321,700 (2002: 8,453,321,700) ordinary shares in issue during the period.

The diluted loss per share for the periods ended 30 June 2002 and 2003 have not been shown as the share options, warrants and convertible notes outstanding during those periods have an anti-dilutive effect on the basic loss per share for those periods.

9. ADDITIONS TO FIXED ASSETS

During the period, the Group incurred approximately HK\$1,545,000 (2002: HK\$17,496,000) on the acquisition of fixed assets.

10. TRADE DEBTORS

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

	30 June 2003 (Unaudited) HK\$'000	Group 31 December 2002 (Audited) HK\$'000
0 — 30 days	9,625	9,497
31 — 60 days	4,974	4,494
More than 60 days	<u>8,023</u>	<u>9,588</u>
	<u>22,622</u>	<u>23,579</u>

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

11. TRADE CREDITORS

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

	30 June 2003 (Unaudited) HK\$'000	Group 31 December 2002 (Audited) HK\$'000
0 — 30 days	5,640	6,318
31 — 60 days	5,056	4,272
More than 60 days	<u>5,191</u>	<u>4,426</u>
	<u>15,887</u>	<u>15,016</u>

12. COMMITMENTS

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

	30 June 2003 (Unaudited) HK\$'000	Group 31 December 2002 (Audited) HK\$'000
Authorised and contracted for	<u>—</u>	<u>342</u>

13. RELATED PARTY TRANSACTIONS

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

		Group	
		For the six months ended 30 June	
		2003	2002
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Rental expenses for office premises paid to a substantial shareholder	<i>(i)</i>	468	783
Rental income for office premises received from an associate	<i>(ii)</i>	—	444
Interest expense paid to a related company	<i>(iii)</i>	2,479	2,479
		2,479	2,479

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 Limited ("Listing Rules").
- (ii) In last year, 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 a beneficial interest of 100%. The interest expense paid to a related company was in respect of the above convertible note. The above transaction also constituted a connected transaction for the Company under the Listing Rule.

14. POST BALANCE SHEET EVENT

On 18 July 2003, warrants with an aggregate of nominal value of HK\$118,132,740, which carry rights to subscribe for shares of HK\$0.01 each ("Shares") in the Company at a subscription price of HK\$0.09 per Share, remained unexercised and expired. As a result, the subscription rights of these warrants lapsed, and the relevant warrant subscription reserve amounting to HK\$25,674,000 was recognised as income accordingly.

15. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated based on the change in accounting policies as set out in note 1 to the interim financial statements.

16. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the board of directors on 5 September 2003.