

## INTERIM RESULTS

The Board of Directors (the “Directors”) of Qualipak International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June, 2003 together with comparative figures for the corresponding period in 2002.

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE, 2003

		<b>1.1.2003</b>	1.1.2002
		<b>to</b>	to
	<i>NOTES</i>	<b>30.6.2003</b>	30.6.2002
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Turnover	2	<b>91,300</b>	100,149
Cost of sales		<b>(69,059)</b>	(73,773)
Gross profit		<b>22,241</b>	26,376
Other revenue		<b>4,471</b>	4,157
Distribution costs		<b>(1,461)</b>	(2,021)
Administrative expenses		<b>(11,049)</b>	(11,859)
Other operating expenses		<b>(600)</b>	–
Profit from operations		<b>13,602</b>	16,653
Interest on convertible note payable		<b>(3,517)</b>	(3,766)
Profit before taxation		<b>10,085</b>	12,887
Taxation	4	<b>(1,422)</b>	(1,095)
Net profit for the period		<b>8,663</b>	11,792
Earnings per share	6		
– Basic		<b>0.35 cent</b>	0.55 cent
– Diluted		<b>0.31 cent</b>	0.38 cent

**CONDENSED CONSOLIDATED BALANCE SHEET**  
*AT 30 JUNE, 2003*

	<i>NOTES</i>	<b>30.6.2003</b> <i>HK\$'000</i> <i>(Unaudited)</i>	31.12.2002 <i>HK\$'000</i> <i>(Audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>120,736</b>	123,557
Interest in properties		<b>6,704</b>	6,789
Convertible note receivable		<b>45,500</b>	25,000
Club membership		<b>346</b>	269
		<u><b>173,286</b></u>	<u>155,615</u>
<b>Current assets</b>			
Inventories		<b>45,051</b>	44,099
Trade and other receivables	8	<b>62,982</b>	67,125
Convertible note receivable		–	28,000
Taxation recoverable		<b>171</b>	159
Short-term bank deposits		<b>255,056</b>	243,007
Bank balances and cash		<b>2,161</b>	1,268
		<u><b>365,421</b></u>	<u>383,658</u>
<b>Current liabilities</b>			
Trade and other payables	9	<b>29,670</b>	32,993
Taxation payable		<b>2,317</b>	1,334
Convertible note payable		–	150,000
		<u><b>31,987</b></u>	<u>184,327</u>
<b>Net current assets</b>		<u><b>333,434</b></u>	<u>199,331</u>
<b>Total assets less current liabilities</b>		<u><b>506,720</b></u>	<u>354,946</u>
<b>Non-current liabilities</b>			
Deferred taxation		<b>783</b>	541
<b>Net assets</b>		<u><b>505,937</b></u>	<u>354,405</u>
<b>Capital and reserves</b>			
Share capital		<b>39,395</b>	23,770
Reserves		<b>466,542</b>	330,635
<b>Shareholders' funds</b>		<u><b>505,937</b></u>	<u>354,405</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE, 2003**

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Surplus account <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January, 2002	20,971	50,129	90,554	150,338	6,295	318,287
Issue of shares resulting from exercise of the Company's warrants	2,799	15,397	–	–	–	18,196
Net profit for the period	–	–	–	11,792	–	11,792
Underprovision of dividend	–	–	–	(594)	594	–
Dividend paid	–	–	–	–	(6,889)	(6,889)
At 1 July, 2002	23,770	65,526	90,554	161,536	–	341,386
Net profit for the period	–	–	–	13,019	–	13,019
Declaration of 2002 final dividend	–	–	–	(7,131)	7,131	–
At 1 January, 2003	23,770	65,526	90,554	167,424	7,131	354,405
Issue of shares resulting from conversion of the Company's convertible note payable	15,625	134,375	–	–	–	150,000
Net profit for the period	–	–	–	8,663	–	8,663
Dividend paid	–	–	–	–	(7,131)	(7,131)
At 30 June, 2003	<u>39,395</u>	<u>199,901</u>	<u>90,554</u>	<u>176,087</u>	<u>–</u>	<u>505,937</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE, 2003**

	<b>1.1.2003 to 30.6.2003 <i>HK\$'000</i> (Unaudited)</b>	1.1.2002 to 30.6.2002 <i>HK\$'000</i> (Unaudited)
Net cash from (used in) operating activities	<b>10,151</b>	(1,445)
Net cash from (used in) investing activities	<b>9,922</b>	(18,950)
Net cash (used in) from financing activities	<b>(7,131)</b>	11,307
Net increase (decrease) in cash and cash equivalents	<b>12,942</b>	(9,088)
Cash and cash equivalents at beginning of the period	<b>244,275</b>	239,610
Cash and cash equivalents at end of the period	<b><u>257,217</u></b>	<u>230,522</u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE, 2003**

**1. ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention.

The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December, 2002 except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) "Accounting for income taxes" ("SSAP 12 (Revised)"), for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in these condensed financial statements.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

**2. GEOGRAPHICAL INFORMATION**

Turnover represents the net amount received and receivable for the sales of watch boxes, spectacles cases, bags and pouches, display units and stationery. A geographical breakdown of the Group's turnover and segment results by geographical market is as follows:

	Turnover		Segment results	
	1.1.2003 to 30.6.2003 HK\$'000	1.1.2002 to 30.6.2002 HK\$'000	1.1.2003 to 30.6.2003 HK\$'000	1.1.2002 to 30.6.2002 HK\$'000
North and South America	33,520	44,849	4,230	5,976
Europe	30,174	25,809	3,808	3,439
Hong Kong	19,505	20,923	2,462	2,788
Others	8,101	8,568	1,022	1,141
	<u>91,300</u>	<u>100,149</u>	<u>11,522</u>	<u>13,344</u>
Interest income			2,680	3,309
Loss on disposal of investments in securities			(600)	–
Profit from operations			13,602	16,653
Interest on convertible note payable			(3,517)	(3,766)
Profit before taxation			10,085	12,887
Taxation			(1,422)	(1,095)
Net profit for the period			<u>8,663</u>	<u>11,792</u>

**3. DEPRECIATION AND AMORTISATION**

During the period, depreciation and amortisation of approximately HK\$3,782,000.00 (1.1.2002 to 30.6.2002: HK\$2,640,000.00) were charged in respect of the Group's property, plant and equipment and interest in properties.

**4. TAXATION**

	1.1.2003 to 30.6.2003 HK\$'000	1.1.2002 to 30.6.2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (1.1.2002 to 30.6.2002: 16%) of the estimated assessable profit for the period	1,180	1,095
Deferred taxation charge	242	–
	<u>1,422</u>	<u>1,095</u>

In the opinion of the Directors, profits of certain subsidiaries neither arise in, nor are derived from Hong Kong, and are not subject to taxation in any of the jurisdictions in which they operate. Accordingly, no provision for taxation has been made on profits of those subsidiaries.

Also, certain subsidiaries 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. The Directors believe that the prior year tax computations of these subsidiaries were prepared on a proper basis.

Pursuant to the Deed of Indemnity dated 14 April, 1999 made between Chuang Hing Limited (“CHL”), China United International Holdings Limited (“CUIHL”) and the Company as set out in the paragraph headed “Other Information” in Appendix 5 of the prospectus dated 15 April, 1999 issued by the Company, CHL and CUIHL agreed with the Company and its subsidiaries (together the “Companies”) that CHL and CUIHL will jointly and severally indemnify each of the Companies against taxation falling on any of the Companies resulting from profits or gains earned or accrued on or before 27 April, 1999.

After taking into consideration of the above-mentioned matters, no provision for additional tax liabilities is considered necessary by the Directors.

## 5. DIVIDEND

During the period, the final dividend of HK\$0.003 per share for 2002 was paid to the shareholders. The Directors do not recommend the payment of any interim dividend for the six months ended 30 June, 2003.

## 6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>1.1.2003 to 30.6.2003 HK\$'000</b>	1.1.2002 to 30.6.2002 HK\$'000
Net profit for the period	<b>8,663</b>	11,792
Effect of dilutive potential shares relating to interest saving on convertible note payable	<u>3,517</u>	<u>3,766</u>
Earnings for the purposes of diluted earnings per share	<u><b>12,180</b></u>	<u>15,558</u>
	<b>Number of shares</b>	
	<b>30.6.2003</b>	30.6.2002
Weighted average number of shares for the purposes of basic earnings per share	<b>2,489,260,627</b>	2,152,053,219
Effect of dilutive potential shares:		
Convertible note payable	<b>1,458,908,840</b>	1,698,267,202
Warrants	<u>–</u>	<u>196,163,185</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u><b>3,948,169,467</b></u>	<u>4,046,483,606</u>

## 7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$956,000 (1.1.2002 to 31.12.2002: HK\$5,986,000) on the acquisition of property, plant and equipment.

## 8. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of approximately HK\$28,201,000 (31.12.2002: HK\$32,345,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	<b>30.6.2003 HK\$'000</b>	31.12.2002 HK\$'000
0 to 30 days	<b>12,104</b>	13,555
31 to 60 days	<b>7,241</b>	8,159
Over 60 days	<u><b>8,856</b></u>	<u>10,631</u>
	<u><b>28,201</b></u>	<u>32,345</u>

## 9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$16,288,000 (31.12.2002: HK\$14,034,000). The aged analysis of trade payables at the balance sheet date is as follows:

	<b>30.6.2003 HK\$'000</b>	31.12.2002 HK\$'000
0 to 30 days	<b>7,013</b>	6,317
31 to 60 days	<b>5,056</b>	4,272
Over 60 days	<u><b>4,219</b></u>	<u>3,445</u>
	<u><b>16,288</b></u>	<u>14,034</u>

## 10. RELATED PARTY TRANSACTIONS

During the period, the Group paid interest on its convertible note payable of approximately HK\$3,517,000 (1.1.2002 to 30.6.2002: HK\$3,766,000) to Faircom Limited, which is a wholly owned subsidiary of Yugang International Limited, the ultimate holding company of the Company.

The above related party transaction was carried out at terms agreed by both parties and interest was charged at 5% per annum, accrued on a daily-basis and payable every six months in arrears.

## 11. PLEDGE OF ASSETS

At 30 June, 2003, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$6,774,000 (31.12.2002: HK\$6,853,000) as securities for general banking facilities granted to the Group.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2003 (2002: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

The turnover of the Group for the six months ended 30 June, 2003 stood at HK\$91.3 million, a decrease of 8.8% or HK\$8.8 million as compared with HK\$100.1 million for the six months ended 30 June, 2002.

The net profit from ordinary activities attributable to shareholders for the period was HK\$8.7 million, a decrease of HK\$3.1 million or 26.3% from HK\$11.8 million in the corresponding period last year. Shareholders' funds at 30 June, 2003 was HK\$506 million (30 June, 2002: HK\$339 million) as a result of a total of 1,562,500,000 shares issued during the period following the conversion of the convertible note payable into shares of the Company in June, 2003 and retained profits for the period. The combined effect of the increase in number of issued shares and the decrease in profit during the period lowered earnings per share to 0.35 cent per share (30 June, 2002: 0.55 cent).

The global business environment remained challenging in the first half of the current financial year 2003 in light of uncertain economic and political climates. These uncertainties discouraged sales of consumer branded items which in turn affected our industry. Demands for packaging products continued to be low. The upsurge of business in the beginning of the period proved to be unsustainable. Starting from March, customers had reduced their packaging product requirements as their finished goods inventory remained excessive. The outbreak of SARS in Hong Kong has brought further disruption to consumption, travel and trade. Overseas buyers postponed their trips, delayed business decisions and order placings. All these factors resulted in a slow start for the current financial year.

During the period, the improved product mix enabled our Company to enjoy slightly improved average selling prices compared to those in the second half of the last financial year. The fall in revenue was primarily as a result of a decline in sales in the United States. In Europe, by contrast, Qualipak had been able to improve revenue level compared to the corresponding period last year. The lower sales volume in the United States and the slight increase in raw material costs affected profitability for the current period.

Geographically, North America still remained as the major market, accounting for 36% of total revenue in the period, as compared to 43% in the corresponding period last year.

### **Outlook**

We are cautiously optimistic about achieving both revenue and profit growth during the second half of the financial year 2003, though much will depend on overall economic conditions and consumer sentiment, particularly in the United States and European markets. Recently, the US economy has shown realistic signs of stability. We expect that competition pressures, especially with regard to pricing, will remain strong. To achieve our goal, we strive to maintain our relationship with existing brand-named customers to which we are already a key supplier. We will concentrate on controlling costs and on extending the range of products we deliver to our core customer base. We are also extending our reach to some of the best names in both United States and European markets, and provide quality design and development service to medium-sized customers in order to broaden our customer base.

We intend to drive revenue by entering into the non-luxury gift packaging market. To capture the opportunities in this new line of business, the Group will participate in exhibitions with focus on client exposures different from our existing ones. Our experienced design team will develop new product lines to meet consumers' needs.

The Group will persistently expand and enhance our comprehensive product range to reinforce the attraction of Qualipak as a key supplier of packaging products. With our continuous efforts in improving operating efficiency and focusing on product developments, we believe that the Group will be well positioned to cope with the challenges ahead.

## Liquidity and financial resources

The Group is financed entirely by share capital and internally generated funds and has no external borrowings. As at 30 June, 2003, the Group had net cash of HK\$257.2 million (30 June, 2002: HK\$230.5 million). Approximately 77.4% of cash and deposits are denominated in United States dollars and 22.4% are denominated in Hong Kong dollars.

The Group's trade receivables are mainly invoiced in Hong Kong and US dollars and have no significant exposure to foreign exchange risk. The Group does not currently undertake any foreign exchange hedging activity.

## Capital expenditure

During the period, the Group invested HK\$0.9 million in plant, machinery, equipment and other tangible assets. This was financed primarily from internal resources.

## Employees

As at 30 June, 2003, the Group had approximately 3,356 employees, the majority of whom are employed in the PRC. The Group has established a share option scheme to motivate and reward employees at all levels. Other employee benefits include insurance and medical cover.

The share option scheme was adopted on 9 April, 1999. Upon amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") on 1 September, 2001, certain terms of the scheme need to be amended, or alternatively, a new share option scheme needs to be implemented, in order to comply with the requirements of the Listing Rules. According to the Listing Rules as amended, no more share is available for issue under the scheme. No option was granted by the Company during the period and no option was outstanding at 30 June, 2003.

## Pledge of assets

At 30 June, 2003, the Group has pledged its leasehold properties with an aggregate carrying value of approximately HK\$6,774,000.00 as security for general banking facilities granted to the Group.

## Investments

During the period, the following events took place:-

- (a) The Group's convertible note receivable of HK\$28,000,000.00 was redeemed in January, 2003.
- (b) The Group purchased a convertible note of HK\$35,000,000.00 issued by a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- (c) The Group disposed of part of a convertible note to the value of HK\$15,250,000.00 which includes interest and principal.

## Contingent liabilities

At 30 June, 2003, the Company has executed guarantees amounting to HK\$20,000,000.00 to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilized as at 30 June, 2003.

## Use of proceeds

As discussed in the 2002 annual report, the principal amount of the convertible note payable of HK\$150 million was converted into shares of the Company in June, 2003 resulting in a total of 1,562,500,000 shares issued during the period. The proceeds, which have not been applied for use, are placed on deposit with banks, and form an integral part of the net cash balance at 30 June, 2003, as disclosed under "liquidity and financial resources".

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

As at 30 June, 2003, the interests and short positions of the directors and chief executives of the Company and their associates in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, were as follows:

### (a) Interests in shares of the Company

Name of director	Nature of interest	Number of shares held	Percentage of issued share capital
Dr. Lam How Mun Peter	Personal	110,000	0.00%
Mr. Cheung Chung Kiu	Corporate (notes 1 & 3)	2,752,396,360	69.87%
Mr. Leung Chun Cheong	Personal	7,410,000	0.19%
Ms. Poon Ho Yee Agnes	Personal	1,040,000	0.03%

(b) **Interests in shares of Yugang International Limited (“Yugang”), the Company’s ultimate holding company**

Name of director	Nature of interest	Number of shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (notes 2 & 3)	3,194,434,684	
	Personal	<u>53,320,000</u>	
Mr. Lam Hiu Lo	Total	3,247,754,684	38.42%
	Personal	41,800,000	0.49%

(c) **Interests in shares of Y.T. Realty Group Limited, a listed associate of Yugang**

Name of director	Nature of interest	Number of shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (note 4)	273,000,000	34.25%

(d) **Interests in underlying shares of Yugang**

Name of director	Nature of interest	Number of underlying shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (note 5)	909,090,909	
	Personal (note 6)	<u>10,000,000</u>	
Mr. Lam Hiu Lo	Total	919,090,909	10.87%
	Personal (note 6)	10,000,000	0.12%
Mr. Leung Wai Fai	Personal (note 6)	10,000,000	0.12%

Notes:

1. These shares are owned by (i) Bookman Properties Limited (“Bookman”) as to 126,288,000 shares, and (ii) Regulator Holdings Limited (“Regulator”) as to 2,626,108,360 shares. Mr. Cheung Chung Kiu is deemed to be interested in these shares by virtue of his deemed interests in Bookman and Regulator.
2. These shares are owned by Chongqing Industrial Limited (“Chongqing”). Mr. Cheung Chung Kiu is deemed to be interested in these shares by virtue of his interests in Chongqing.
3. Chongqing is the beneficial controlling shareholder of both Bookman and Regulator. 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 respectively. Peking Palace Limited and Miraculous Services Limited are beneficially owned by 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.
4. These shares are held by a wholly-owned subsidiary of Yugang. Mr. Cheung Chung Kiu is only deemed to be interested in these shares by virtue of his interests in Yugang.
5. The interest disclosed represents the interest in the underlying shares in respect of a convertible note of principal amount of HK\$100,000,000 issued by Yugang with maturity date on 31 July, 2004 to Timmex Investment Limited in which Mr. Cheung Chung Kiu has 100% beneficial interest. The convertible note can be converted into Yugang’s 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 underlying shares of the convertible note will change with the change of conversion price of the convertible note from year to year.
6. The interest disclosed represents the personal interests in the underlying shares in respect of share options in Yugang which are separately disclosed under “Directors’ Rights to Acquire Shares or Debentures” below.

Save as disclosed above, as at 30 June, 2003, the Company had not been notified of any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under a share option scheme of the Company's ultimate holding company, Yugang, options may be granted to directors and employees of Yugang or its subsidiaries to subscribe for shares in Yugang. On 24 March, 2000, the following directors of the Company were granted share options to subscribe for shares in Yugang at an exercise price of HK\$0.144 per share and exercisable from 24 September, 2000 to 18 October, 2003 as follows:

Name of director	Number of shares in respect of share options as at 1.1.2003 and 30.6.2003
Mr. Cheung Chung Kiu	10,000,000
Mr. Lam Hiu Lo	10,000,000
Mr. Leung Wai Fai	10,000,000

Other than as disclosed above and under the heading "Directors' and Chief Executives' Interests in the Securities of the Company and its Associated Corporations" above, at no time during the period was the Company, any of its subsidiaries or its holding company, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their associates, had any right to subscribe for shares of the Company, or had exercised any such right during the period.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 22 June, 2000, the Company issued a convertible note (the "Note") to Faircom Limited ("Faircom"), a wholly-owned subsidiary of Yugang with a principal amount of HK\$150 million. Details of the terms of the Note are set out in the circular to shareholders dated 26 May, 2000.

During the period, interest for the Note of approximately HK\$3,517,000 was paid to Faircom. According to the terms and conditions of the Note, Faircom transferred the Note to Regulator, a wholly-owned subsidiary of Yugang, on 17 June, 2003. Regulator exercised its conversion rights attaching to the Note and converted the Note into 1,562,500,000 shares of the Company at the conversion price of HK\$0.096 per share on 18 June, 2003.

Both Faircom and Regulator are subsidiaries under the group of companies headed by Yugang which is a substantial shareholder of the Company. By virtue of his interests in Yugang, Mr. Cheung Chung Kiu is deemed to be interested in the Note.

Saved as disclosed above, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules, and no contracts of significance subsisted at the end of the period or at any time during the period to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June, 2003, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Name	Number of shares held	Percentage of issued share capital
Regulator	2,626,108,360	66.66%
Yugang International (B.V.I.) Limited ("Yugang-BVI")	2,752,396,360 (Note 1)	69.87%
Yugang	2,752,396,360 (Note 2)	69.87%
Chongqing	2,752,396,360 (Note 3)	69.87%
Palin Holdings Limited ("Palin")	2,752,396,360 (Note 4)	69.87%

### Notes:

1. These interests include the interest held by Regulator, a direct wholly-owned subsidiary of Yugang-BVI, and the interest in 126,288,000 shares representing 3.21% held by Bookman, an indirect wholly-owned subsidiary of Yugang-BVI. Yugang-BVI has a deemed interest in 2,752,396,360 shares by virtue of its interests in the shares of Regulator and Bookman.
2. These interests are duplicated with those of Yugang-BVI as disclosed herein. Yugang is taken to be interested in the said shares by virtue of its interests in the shares of Yugang-BVI.
3. These interests are duplicated with those of Yugang as disclosed herein. Chongqing is taken to be interested in the said shares by virtue of its interests in the shares of Yugang.
4. These interests are duplicated with those of Chongqing as disclosed herein. Palin is taken to be interested in the said shares by virtue of its interests in the shares of Chongqing.

Save as disclosed above, as at 30 June, 2003, no other person (other than a director or chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

During the six months ended 30 June, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management 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.

The interim financial statements for the six months ended 30 June, 2003 have not been audited but have been reviewed by the Company's external auditors.

## **CORPORATE GOVERNANCE**

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By Order of the Board  
**Lam How Mun Peter**  
*Chairman and Managing Director*

Hong Kong, 5 September, 2003