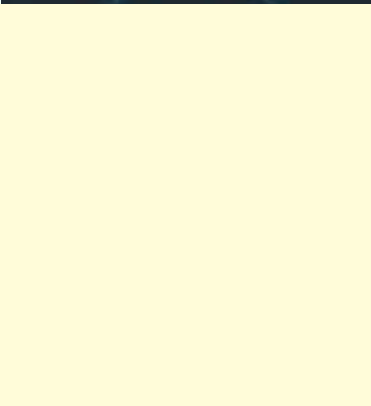
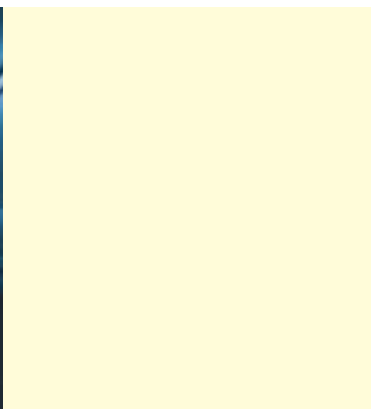


YUGANG

YUGANG INTERNATIONAL LIMITED



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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

Audit Committee

Lee Ka Sze, Carmelo
Wong Wai Kwong, David

Secretary

Albert T. da Rosa, Jr.

Auditors

Ernst & Young

Qualified Accountant

Leung Wai Fai

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

Stock Code

613

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first six months of 2004, the Group recorded a net profit attributable to shareholders of HK\$65.7 million as compared to a net loss of HK\$26.4 million for the last corresponding period.

The recovery of Hong Kong economy continued to boost consumer confidence during the first half of the year. With further relaxation of restrictions for PRC Mainland tourists to Hong Kong, the retail sector rebounded significantly. The robust recovery in retail sales, improvement in business sentiment, rising of property and stock market, gradual decrease of unemployment rate and deflationary pressure provided the Group with good opportunity to consolidate its business during the period under review.

Capturing the booming of retail market, the Group's property investment business successfully concluded lease renewals of its retail portfolios with satisfactory upward adjustment and maintained high occupancy rate at over 93%. Following the trend of economic recovery, the Group's business was all presented a satisfactory performance except the trading of automobile parts that remained sluggish during the period.

Performance of the Group's Business

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. The net profit after tax of Qualipak for the period was HK\$24.1 million, representing an increase of HK\$15.5 million or 178.7% over the last corresponding period.

During the period, Qualipak has recorded growth in all packaging products. The growing demand for packaging products as evidenced by an increase of 32.5% in sales volume, improved average selling prices, well-diversified customer base and broadening range of product mix all supported the development of packaging business with a stable growth.

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 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.

During the first half of the year, Y.T. Realty recorded a net profit of HK\$32.1 million, representing an increase of 27% from the last corresponding period. The gross rental income from investment properties for the period was HK\$38.7 million, 14.2% lower than the corresponding period of last year. This was mainly attributable to the loss of rental income after the disposal of certain property during the period under review. Nevertheless, the retail portfolios recorded satisfactory upward adjustment of rental when concluding lease renewals.

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 the stock exchange in Hong Kong.

After the passing of SARS and gradual recovery of local economy, total cross harbour traffic and traffic volume rebounded to the original level before the SARS outbreak. The daily throughput of its tunnel operation recorded an increase of 12% when compared with last corresponding period. Cross-Harbour reported a net profit of HK\$56.6 million, representing an increase of 34.2% compared with HK\$42.2 million for the last corresponding period.

Treasury Investment

To optimize the return on its assets employed, the Group has been utilizing its available fund for treasury investment in the past years. The treasury investment mainly comprised the securities investment and financing activities. In the past, substantially the contribution of these treasury investments is reflected in the

segmental information as Other Investments. As the business of the Group was becoming diversified in the past few years, the management believes that classifying the treasury investment as one of our major and ordinary courses of business will enable investors to have better understanding of the performance of each business segment of the Group.

PROSPECT

As US and European market is expected to continue its improvement in 2004, there will be growing business opportunities of Qualipak in the second half of the year. With an increased participation in trade fairs and media advertising as well as an improved product design, Qualipak has strived to extend their reach to some of the brand-named customers in both United States and European markets in order to broaden their customer base.

Y.T. Realty is shifting its tenants' profile to retail and commercial nature. The transformation program of the offices is expected to swap the offices into retail and commercial usage. However, flexible leasing strategies are always adopted to ensure a higher percentage of occupancy.

Despite the outlook of local economy is quite positive, the Group will preserve its prudent approach when planning ahead to explore any business opportunities. The Group will focus its investment strategy toward a long-term strategic growth with sound financial and management capabilities.

FINANCIAL REVIEW

The Group's turnover was HK\$195 million for the period under review after taking into account of the segment of treasury investment. The Group's turnover for the last corresponding period was restated as HK\$97.9 million accordingly. The turnover of packaging products increased by 33% as a result of growing demand of packaging products. The trading performance of automobile parts remained sluggish.

As at 30 June 2004, the Group's net asset value was HK\$1,848.2 million and had a net asset value per share of HK\$0.22. The Group's total assets and liabilities (excluding minority interests of HK\$216.1 million) were HK\$2,346.2 million and HK\$281.9 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group's cash and cash equivalent was HK\$472.2 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 0.12%. The Group has a working capital ratio of approximately 4.8. All of these indicated the Group has sufficient working capital to support its operation.

As at 30 June 2004, the Group had a short-term bank borrowing of HK\$50 million and no contingent liabilities.

EXCHANGE RISK

Whilst sales of the Group are mainly denominated in Hong Kong dollars and US dollars, purchases of raw materials are majority made 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

The Company had a convertible note payable amounted to HK\$100,000,000 with maturity date on 31 July 2004. There was no conversion of the note during the period and the note finally expired on the maturity date.

PLEDGE OF ASSETS

As at 30 June 2004, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$67,316,000 and time deposits of approximately HK\$8,120,000 as security for general banking facilities granted to the Group.

EMPLOYEES

As at 30 June 2004, the Group employed approximately a total of 94 employees in Hong Kong and a workforce of 4,540 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.

MATERIAL DISPOSAL

During the first half of the year, the Group disposed in aggregate of 400,000,000 shares in Qualipak to realize a gain of approximately HK\$22 million. The equity interest in Qualipak dropped from 69.87% to 59.71% after the disposal.

SIGNIFICANT INVESTMENTS

The Group continued to maintain its investment in equity interest of Y.T. Realty with a carrying value of HK\$630.4 million as at 30 June 2004. The net profit of Y.T. Realty for the period was HK\$32.1 million.

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

As at 30 June 2004, the interests and short positions of directors, chief executives and their associates in 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 (Note 1)	37.79%
	53,320,000	Personal	0.63%
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:

- 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 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.

(II) Interests in the convertible notes of the Company

Name of Director	Convertible notes held <i>HK\$</i>	Number of underlying shares held	Holding capacity	Percentage of issued share capital
Cheung Chung Kiu	100,000,000	833,333,333	Corporate (Note 1)	9.86%
	70,000,000	933,333,333	Corporate (Note 1)	11.04%

Note:

1. The two convertible notes were held by Timmex Investment Limited, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.

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	2,352,396,360	Corporate (Note 1)	59.71%
Lee Ka Sze, Carmelo	1,000,000	Family	0.03%

Note:

- (1) The 2,352,396,360 shares were held by Regulator Holdings Limited ("Regulator"). Regulator 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.

(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 (Note 1)	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 interests or short positions in 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the following persons (other than as disclosed in the section headed "Interests and short positions of directors and chief executives in shares, underlying shares and debentures of the Company and its associated corporations" in this report) who have interests or short positions in shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholders	Number of shares/ underlying shares held	Percentage of issued share capital
Palin Holdings Limited	3,194,434,684 (<i>Note 1</i>)	37.79%
Chongqing Industrial Limited	3,194,434,684 (<i>Note 1</i>)	37.79%
Timmex Investment Limited	1,766,666,666 (<i>Note 2</i>)	20.90%

Notes:

1. The voting rights of these shares are exercisable by Chongqing Industrial Limited which is controlled by Mr. Cheung Chung Kiu.
2. The interests represents the shares issuable upon the exercise of the conversion right attaching to the convertible notes with respective values of HK\$100,000,000 with the conversion price being HK\$0.12 per share and HK\$70,000,000 with the conversion price being HK\$0.075 per share that are held by Timmex Investment Limited, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.

Save as disclosed above, none of the substantial shareholders had a short positions in 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 with the 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 2004.

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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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, 17 September 2004

RESULTS

The Board of Directors 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 2004 together with the unaudited comparative figures (as restated) for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

	Notes	For the six months ended 30 June 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000 (Restated)
Turnover		195,001	97,868
Cost of sales		(92,192)	(78,913)
Gross profit		102,809	18,955
Other revenue and gains		7,888	8,610
Selling and distribution costs		(3,932)	(3,211)
Administrative expenses		(44,759)	(32,842)
Other operating income/(expenses), net	3	12,375	(18,788)
Profit/(loss) from operating activities	4	74,381	(27,276)
Finance costs	5	(2,519)	(2,599)
Share of results of:			
A jointly-controlled entity		(915)	(642)
Associates		13,999	11,047
PROFIT/(LOSS) BEFORE TAX		84,946	(19,470)
Tax	6	(10,101)	(2,862)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		74,845	(22,332)
Minority Interests		(9,153)	(4,092)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		65,692	(26,424)
EARNINGS/(LOSS) PER SHARE	8		
BASIC		0.78HK cents	(0.31) HK cents
DILUTED		0.73HK cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2004

	Notes	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		221,554	218,336
Interests in associates		630,425	623,518
Interests in a jointly-controlled entity		4,389	5,304
Other assets		95,156	6,632
Loans receivable		43,000	4,000
		994,524	857,790
CURRENT ASSETS			
Other investments		362,740	371,852
Convertible debentures and notes		22,100	10,500
Stocks		46,037	42,245
Loans receivable		365,560	364,962
Trade debtors	10	34,230	27,737
Other debtors, deposits and prepayments		41,307	52,683
Bills receivable		7,511	9,168
Pledged time deposits		8,121	8,060
Time deposits		432,146	402,176
Cash and bank balances		31,949	112,743
		1,351,701	1,402,126
CURRENT LIABILITIES			
Bills payable and trust receipt loans, secured		992	2,794
Trade creditors	11	26,661	17,720
Tax payable		69,617	69,167
Other payables		5,330	6,348
Accrued expenses		19,731	17,422
Customers' deposits received		7,345	7,711
Bank loan, unsecured		50,000	80,000
Convertible notes		100,000	100,000
		279,676	301,162
NET CURRENT ASSETS		1,072,025	1,100,964
TOTAL ASSETS LESS CURRENT LIABILITIES		2,066,549	1,958,754

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

30 June 2004

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
<i>Notes</i>		
<hr/>		
NON-CURRENT LIABILITIES		
Deferred tax	2,206	783
MINORITY INTERESTS	216,156	158,569
	1,848,187	1,799,402
<hr/>		
CAPITAL AND RESERVES		
Issued capital	84,533	84,533
Reserves	1,763,654	1,697,962
Proposed final dividend	—	16,907
	1,848,187	1,799,402
<hr/>		

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2004*

	For the six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	19,193	(123,127)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(17,484)	49,340
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(52,472)	6,356
DECREASE IN CASH AND CASH EQUIVALENTS	(50,763)	(67,431)
Cash and cash equivalents at beginning of period	522,979	594,819
CASH AND CASH EQUIVALENTS AT END OF PERIOD	472,216	527,388
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	31,949	45,107
Non-pledged time deposits	432,146	474,208
Pledged time deposits	8,121	8,073
	472,216	527,388

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Unaudited six months ended 30 June 2004							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	Proposed final dividend HK\$'000	
Group								
At 1 January 2004	84,533	840,629	760,799	—	(419)	96,953	16,907	1,799,402
Net profit for the period	—	—	—	—	—	65,692	—	65,692
Dividend paid	—	—	—	—	—	—	(16,907)	(16,907)
At 30 June 2004	84,533	840,629*	760,799*	—	(419)*	162,645*	—	1,848,187

	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	Proposed final dividend HK\$'000	
Group								
At 1 January 2003	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	84,533	840,629*	760,799*	25,674*	(419)*	(20,858)*	—	1,690,358

* These reserve accounts comprised the consolidated reserve of HK\$1,763,654,000 (2003: HK\$1,605,825,000) in the condensed consolidated balance sheet.

NOTES TO INTERIM FINANCIAL STATEMENTS

30 June 2004

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 The Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2003 except that the trading of securities, interest income from securities investment and provision of financing services are reclassified under treasury investment as part of the principal activities of the Group. The directors are of the opinion that such reclassification is necessary to give a better understanding of the performance of the Group and the comparative amounts presented have been restated to conform to the changed classification.

2. Segmental Information

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

	Turnover		Contribution to profit/(loss) from operating activities	
	For the six months ended 30 June		For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000 (Restated)	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000 (Restated)
By activity :				
Trading of automobile parts	—	10,100	(5,049)	(14,025)
Manufacturing and sale of packaging products	121,542	91,300	20,687	12,711
Treasury investment	73,459	(3,532)	74,722	(25,686)
	195,001	97,868	90,360	(27,000)
Unallocated expenses, net			(17,352)	(2,905)
Interest income			1,373	2,629
Finance costs			(2,519)	(2,599)
Share of results of:				
A jointly-controlled entity			(915)	(642)
Associates			13,999	11,047
Profit/(loss) before tax			84,946	(19,470)
Tax			(10,101)	(2,862)
Minority interests			(9,153)	(4,092)
Net profit/(loss) from ordinary activities attributable to shareholders			65,692	(26,424)

2. **Segmental Information** (continued)

	Turnover	
	For the six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
By geographical area :		
Hong Kong	108,581	15,561
Mainland China	—	10,100
North and South Americas	41,782	33,932
Europe	37,959	30,174
Others	6,679	8,101
	195,001	97,868

3. **Other Operating Income/(Expenses), Net**

	Group	
	For the six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Provision for doubtful debts, net	(300)	(868)
Unrealized holding losses on other investments	(11,359)	(17,920)
Write-back of impairment in value of convertible debentures	1,553	—
Gain on partial disposal of a subsidiary	22,481	—
	12,375	(18,788)

4. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Group	
	For the six months	
	ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	6,005	6,116
Amortization of negative goodwill	(4,081)	(3,742)
(Gain)/Loss on disposal of other investments	(61,082)	15,746

5. Finance Costs

	Group	
	For the six months	
	ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within one year	40	118
Interest on convertible notes	2,479	2,479
Hire purchase interest	—	2
	2,519	2,599

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Group:		
Hong Kong		
Charge for the year	5,349	1,180
Underprovision in prior years	68	—
	5,417	1,180
Deferred tax	1,423	(672)
	6,840	508
Share of tax attributable to:		
A jointly-controlled entity	—	52
Associates	3,261	2,302
Tax charge for the period	10,101	2,862

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

7. Dividend

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 June 2004 (2003: Nil).

8. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share for the period ended 30 June 2004 is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$65,692,000 (2003: net loss of HK\$26,424,000) and the weighted average number of 8,453,321,700 (2003: 8,453,321,700) ordinary shares in issue during the period.

8. Earnings/(Loss) Per Share *(continued)*

The calculation of diluted earnings per share for the period ended 30 June 2004 is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$67,755,000 as adjusted for the interest saving on the conversion of the convertible note into ordinary shares of the Company. The weighted average number of ordinary shares used in the calculation is the sum of the number of ordinary shares in issue during the period used in the basic earnings per share calculation of 8,453,321,700 and the weighted average of 833,333,333 ordinary shares assumed to have been issued at no consideration on the deemed conversion of all convertible notes into ordinary shares of the Company during the period.

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

9. Additions to Fixed Assets

During the period, the Group incurred approximately HK\$9,222,000 (2003: HK\$1,545,000) on the acquisition of fixed assets.

10. Trade Debtors

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

	Group	
	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 – 30 days	17,820	13,131
31 – 60 days	6,302	6,970
More than 60 days	10,108	7,636
	34,230	27,737

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:

	Group	
	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 – 30 days	9,497	8,198
31 – 60 days	9,674	4,539
More than 60 days	7,490	4,983
	26,661	17,720

12. Commitments

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

	Group	
	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Contracted, but not provided for	1,388	—

13. Related Party Transactions

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

		Group For the six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Rental expenses for office premises paid to a substantial shareholder	<i>(i)</i>	468	468
Interest expense paid to a related company	<i>(ii)</i>	2,479	2,479

13. Related Party Transactions *(continued)*

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. Mr. 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) A convertible note of HK\$100,000,000 bearing interest at 5% per annum was issued to Timmex Investment Limited, a company in which Mr. 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. The note was fully repaid on 31 July 2004.

14. Post Balance Sheet Event

On 25 May 2004, the Company entered into an agreement with Timmex Investment Limited ("Timmex") in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$70,000,000 (the "Note"). Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu, a director of the Company. The Note conferred the right on the holder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from 31 July 2004 for a period of three years, at a conversion price of HK\$0.075 per share in the first year, HK\$0.082 per share in the second year and HK\$0.089 per share in the third year (subject to adjustment). The Note will mature for principal repayment on 31 July 2007. Interest on the Note is accrued from the date of issue on a day-to-day basis at 3% per annum on the principal amount of the Note and is payable annually in arrears.

15. Comparative Amounts

As mentioned in note 1 to these condensed consolidated interim financial statements, the comparative figures have been reclassified to conform to the current year's presentation.

16. Approval of the Interim Financial Statements

These unaudited condensed consolidated interim financial statements were approved by the board of directors on 17 September 2004.