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CORPORATE INFORMATION

DIRECTORS

Executive directors

Dr. Lam How Mun Peter

(Chairman and Managing Director)

Mr. Cheung Chung Kiu

Mr. Lam Hiu Lo

Mr. Leung Chun Cheong

Mr. Leung Wai Fai

Ms. Poon Ho Yee Agnes

Independent non-executive directors

Mr. Lam Kin Fung Jeffrey

Mr. Lam Ping Cheung

COMPANY SECRETARY

Ms. Lam Wai Wah Lily

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor

China United Centre

28 Marble Road

North Point

Hong Kong

STOCK CODE

1224

LEGAL ADVISORS

Hong Kong

Cheung, Tong & Rosa

Jones, Day, Reavis & Pogue

Bermuda

Conyers Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking
Corporation Limited

BNP Paribas

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer office

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

*Hong Kong branch share registrar and
transfer office*

Secretaries Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

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 2004 together with comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

		1.1.2004 to 30.6.2004 HK\$'000 (Unaudited)	1.1.2003 to 30.6.2003 HK\$'000 <i>(Unaudited)</i> <i>(Restated)</i>
	<i>NOTES</i>		
Turnover	3	138,658	92,117
Cost of sales		(92,192)	(69,059)
Gross profit		46,466	23,058
Other operating income		1,677	3,054
Unrealised holding gain on other investments		8,780	–
Distribution costs		(4,232)	(1,461)
Administrative expenses		(17,641)	(11,049)
Profit from operations		35,050	13,602
Interest on convertible note payable		–	(3,517)
Profit before taxation		35,050	10,085
Taxation	6	(10,902)	(1,422)
Net profit for the period		24,148	8,663
Earnings per share	8		
– Basic		0.61 cent	0.35 cent
– Diluted		N/A	0.31 cent

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2004

	<i>NOTES</i>	30.6.2004 HK\$'000 <i>(Unaudited)</i>	31.12.2003 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	9	116,704	118,751
Interest in properties		6,533	6,618
Convertible note receivable		16,000	32,000
Club membership		138	242
		<hr/> 139,375	<hr/> 157,611
Current assets			
Inventories		46,037	42,245
Trade and other receivables	10	79,224	152,104
Other investments	11	70,917	–
Convertible note receivable		22,100	10,500
Taxation recoverable		879	126
Short-term bank deposits		232,969	198,737
Bank balances and cash		1,805	1,856
		<hr/> 453,931	<hr/> 405,568
Current liabilities			
Trade and other payables	12	46,438	32,605
Taxation payable		8,126	3,615
		<hr/> 54,564	<hr/> 36,220
Net current assets		<hr/> 399,367	<hr/> 369,348
Total assets less current liabilities		<hr/> 538,742	<hr/> 526,959
Non-current liability			
Deferred taxation	13	2,206	783
Net assets		<hr/> 536,536	<hr/> 526,176
Capital and reserves			
Share capital		39,395	39,395
Reserves		497,141	486,781
Shareholders' funds		<hr/> 536,536	<hr/> 526,176

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	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 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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 July 2003	39,395	199,901	90,554	176,087	–	505,937
Net profit for the period	–	–	–	20,239	–	20,239
Declaration of 2003 final dividend	–	–	–	(13,788)	13,788	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2004	39,395	199,901	90,554	182,538	13,788	526,176
Net profit for the period	–	–	–	24,148	–	24,148
Dividend paid	–	–	–	–	(13,788)	(13,788)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	<u>39,395</u>	<u>199,901</u>	<u>90,554</u>	<u>206,686</u>	<u>–</u>	<u>536,536</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	1.1.2004 to 30.6.2004 <i>HK\$'000</i> (Unaudited)	1.1.2003 to 30.6.2003 <i>HK\$'000</i> (Unaudited) (Restated)
Net cash from operating activities	49,066	19,766
Net cash (used in) from investing activities	(1,097)	307
Net cash used in financing activities	(13,788)	(7,131)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	34,181	12,942
Cash and cash equivalents at the beginning of the period	200,593	244,275
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<u>234,774</u>	<u>257,217</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities.

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 2003 except that the trading of securities, 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 with the changed classification.

3. TURNOVER

Turnover represents the amounts received and receivable in respect of sales of goods, less returns and discounts, to outside parties, net proceeds of trading in securities, investment income and interest income from provision of financial services during the periods.

An analysis of the Group's turnover is as follows:

	1.1.2004	1.1.2003
	to	to
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Sales of goods	121,542	91,300
Net proceeds of trading in securities*	14,896	(600)
Investment income	1,353	1,417
Interest income from provision of financial services	867	-
	138,658	92,117

* The amount was derived from after taking into account of the gross proceeds of trading in securities of approximately HK\$27,000,000 for the six months ended 30 June 2004 (1.1.2003 to 30.6.2003: HK\$24,328,000).

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions – sales of goods and treasury investment. These divisions are the basis on which the Group reports its primary segment information.

The principal activities are as follows:

Sales of goods – Manufacture and trading of watch boxes, gift boxes, spectacles cases, bags and pouches, and display units.

Treasury investment – Investments in securities and convertible notes, and provision of financial services.

Segment information about these businesses is presented below:

	Sales of goods HK\$'000	Treasury investment HK\$'000	Total HK\$'000
For the six months ended 30 June 2004			
Turnover	<u>121,542</u>	<u>17,116</u>	<u>138,658</u>
Result			
Segment result	<u>16,728</u>	<u>14,547</u>	31,275
Unallocated corporate expenses			(5,618)
Unrealised holding gain on other investments		8,780	8,780
Interest income			<u>613</u>
Profit from operations			35,050
Taxation			<u>(10,902)</u>
Net profit for the period			<u>24,148</u>
For the six months ended 30 June 2003			
Turnover	<u>91,300</u>	<u>817</u>	<u>92,117</u>
Result			
Segment result	<u>9,237</u>	<u>695</u>	9,932
Unallocated corporate expenses			(1,337)
Unallocated corporate income			3,744
Interest income			<u>1,263</u>
Profit from operations			13,602
Interest on convertible note payable			<u>(3,517)</u>
Profit before taxation			10,085
Taxation			<u>(1,422)</u>
Net profit for the period			<u>8,663</u>

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

An analysis of the Group's turnover by geographical market is as follows:

	1.1.2004 to 30.6.2004 HK\$'000	1.1.2003 to 30.6.2003 HK\$'000
North and South America	41,461	33,520
Europe	37,959	30,174
Hong Kong	52,674	20,322
Others	6,564	8,101
	<u>138,658</u>	<u>92,117</u>

5. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortisation of approximately HK\$3,842,000 (1.1.2003 to 30.6.2003: HK\$3,782,000) were charged in respect of the Group's property, plant and equipment and interest in properties.

6. TAXATION

	1.1.2004 to 30.6.2004 HK\$'000	1.1.2003 to 30.6.2003 HK\$'000
The charge comprises:		
The Company and its subsidiaries:		
Hong Kong Profits Tax		
– current period	(5,349)	(1,180)
– overprovision in prior years	564	–
– additional tax assessments for the years of assessment from 1993/94 to 2002/03	(4,694)	–
	<u>(9,479)</u>	<u>(1,180)</u>
Deferred taxation charge	(1,423)	(242)
	<u>(10,902)</u>	<u>(1,422)</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

In prior years, certain subsidiaries of the Company were in discussion with the Hong Kong Inland Revenue Department (the "IRD") regarding their prior year tax computations. During the period, these subsidiaries and the IRD reached a compromised settlement of approximately HK\$4,694,000 in respect of additional tax liabilities for the years of assessment from 1993/94 to 2002/03.

7. DIVIDENDS

During the period, a final dividend of HK\$0.0035 per share for 2003, amounting to approximately HK\$13,788,000 (2003: HK\$0.003 per share for 2002, amounting to approximately HK\$7,131,000) was paid to the shareholders. The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2004.

8. EARNINGS PER SHARE

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

	1.1.2004 to 30.6.2004 HK\$'000	1.1.2003 to 30.6.2003 HK\$'000
Net profit for the period	24,148	8,663
Effect of dilutive potential shares relating to interest saving on convertible note payable	–	3,517
Earnings for the purposes of diluted earnings per share	<u>24,148</u>	<u>12,180</u>
	Number of shares	
	30.6.2004	30.6.2003
Weighted average number of shares for the purposes of basic earnings per share	3,939,536,870	2,489,260,627
Effect of dilutive potential shares:		
Convertible note payable	–	1,458,908,840
Weighted average number of shares for the purposes of diluted earnings per share	<u>3,939,536,870</u>	<u>3,948,169,467</u>

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$1,710,000 (1.1.2003 to 31.12.2003: HK\$2,675,000) on the acquisition of property, plant and equipment.

10. TRADE AND OTHER RECEIVABLES

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Trade receivables	41,741	34,283
Loan receivables	6,000	77,900
Other receivables	31,483	39,921
	<u>79,224</u>	<u>152,104</u>

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

The ageing analysis of trade receivables at the balance sheet date is as follows:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
0 to 30 days	21,354	15,682
31 to 60 days	7,269	9,049
Over 60 days	13,118	9,552
	<u>41,741</u>	<u>34,283</u>
	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Loan receivables comprised:		
– interest bearing at 2% per annum over and above the prime lending rate per annum	6,000	–
– interest bearing at 4% per annum	–	77,900
	<u>6,000</u>	<u>77,900</u>

The loan receivables are unsecured but guaranteed by personal guarantee of the borrowers and repayable at lump sum together with accrued interest within one year.

11. OTHER INVESTMENTS

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Equity securities, at market value		
Listed in Hong Kong	58,772	–
Listed in Singapore	12,145	–
	<u>70,917</u>	<u>–</u>

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$26,571,000 (31.12.2003: HK\$17,207,000). The ageing analysis of trade payables at the balance sheet date is as follows:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
0 to 30 days	10,174	8,198
31 to 60 days	9,990	5,121
Over 60 days	6,407	3,888
	<u>26,571</u>	<u>17,207</u>

13. DEFERRED TAXATION

The following are the major deferred taxation liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation HK\$'000	Prepaid expense HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2003	480	61	–	541
Charge (credit) to income statement	<u>303</u>	<u>(61)</u>	<u>–</u>	<u>242</u>
At 30 June 2003 and 31 December 2003	783	–	–	783
Charge (credit) to income statement	<u>1,738</u>	<u>–</u>	<u>(315)</u>	<u>1,423</u>
At 30 June 2004	<u>2,521</u>	<u>–</u>	<u>(315)</u>	<u>2,206</u>

For the purpose of balance sheet presentation, the above deferred taxation liabilities and assets have been offset.

There is no other significant unprovided deferred taxation for the period or at the balance sheet date.

14. PLEDGE OF ASSETS

At 30 June 2004, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$6,616,000 (31.12.2003: HK\$6,695,000) as securities for general banking facilities granted to the Group.

15. CAPITAL COMMITMENTS

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Capital expenditure contracted for but not provided in the condensed financial statements in respect of acquisition of property, plant and equipment	<u>968</u>	<u>—</u>

16. CONTINGENT LIABILITIES

At 30 June 2004, the Company executed guarantees amounting to HK\$20,000,000 (31.12.2003: HK\$20,000,000) to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilised at 30 June 2004 and 31 December 2003.

17. RELATED PARTY TRANSACTION

During the six months ended 30 June 2003, the Group paid interest on its convertible note payable of approximately HK\$3,517,000 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Dividend

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: Nil).

Business Review

The Group achieved a total turnover of HK\$138.7 million for the six months ended 30 June 2004, comprising of revenue from our main packaging business (HK\$121.5 million) and, income from treasury investment (HK\$17.2 million), which is an increase of HK\$46.6 million or 50.6% as compared with HK\$92.1 million for the six months ended 30 June 2003.

The Group's net profit attributable to the shareholders for the period was HK\$24.1 million, representing an increase of HK\$15.4 million or 177.0% from HK\$8.7 million in the corresponding period last year. Earnings per share rose 74.3% to 0.61 cents per share (30 June 2003: 0.35 cents per share).

The profit for the period included interest and dividend income of HK\$2.8 million, profit on securities trading (including unrealized holding gain on investments held as at 30 June 2004) of HK\$23.7 million, and a provision of HK\$8.7 million for settlement of a dispute with the Hong Kong Inland Revenue Department (the "IRD") regarding offshore income claims and related professional costs incurred.

The general economies and consumer markets in the US and Europe have seen improvement and growing demands in packaging products since the beginning of the current period. Due to improvement in consumer spending and better market condition, the Group's business has resumed its growing trend in the current period. This growth mainly came from strong demands for our packaging products, recording a 32.5% increase in sales volume over the same period last year, with improved average selling prices and product mix.

The Group recorded growth in all our packaging products during the period, with the exception of a marginal decline in metal products. The diversified customer base supported the Group's stable business development. Geographically, 31.2% of sales was generated from customers in Europe, 34.1% from those in North America and 34.7% from those in Hong Kong and other parts of the world.

Outlook

The key challenge faced by the Group, as in all manufacturing industries, is market competition. As economic growth in both the US and European market is expected to continue, boosting consumer confidence and retail sales, the Group expects even greater business opportunities in the second half of the current financial year. Our sales teams are further strengthened and better positioned to capture these business opportunities. The second half of the financial year 2004 has started well and we expect the financial year 2004 to show much improvement in our financial results.

We will also expand the customer base through selected media advertising, more active participation in trade fairs, as well as increased investment in product design support for customers.

The Group is actively looking for opportunities for growth through horizontal expansion and vertical integration. We have gradually built up a solid foundation facilitating future expansion. Our target is to acquire businesses which will buoy the group's growth in the medium to long-term.

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 contribution from treasury investment mainly comprised of securities and convertible notes investments. As the Group has diversified its business from the manufacture and trading of packaging products to include treasury investment activities, the management believes that classifying the treasury investment as one of our major and ordinary courses of business will enable investors to have a better understanding of the performance of each business segment of the Group. The addition of the business segment information in the current period also gives a better picture of the range, size, and nature of the Group's activities. The segment results are contained in Note 4 to the condensed consolidated financial statements.

Financial Position

At 30 June 2004, shareholders' equity was HK\$536.5 million (31 December 2003: HK\$526.2 million). The increase was mainly due to increase in turnover and profitability during the period.

Liquidity and Financial Resources

The Group has maintained a very healthy financial position. The current ratio was 8.3 at 30 June 2004. The Group used internally generated funds to finance its operation and business developments.

At 30 June 2004, the Group had cash on hand amounting to HK\$234.7 million (31 December 2003: HK\$200.6 million) and had no external borrowings.

Taxation

The Group has settled its dispute with the IRD regarding offshore income claims. The final settlement resulted in a provision for taxation relating to prior years of HK\$4.7 million during the period.

Employees

At 30 June 2004, the Group had approximately 4,600 employees. There was no change in the remuneration policies. Employee benefits related to provident fund and discretionary bonus remained the same.

The Group has established a share option scheme to motivate and reward employees at all levels. 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 2004.

Capital Expenditure

During the period, the Group invested HK\$1.7 million in plant, machinery, equipment and other tangible assets. All of these capital expenditure were financed from internal resources.

Pledge of Assets

At 30 June 2004, the Group has pledged its leasehold properties with an aggregate carrying value of approximately HK\$6,616,242.00 as security for general banking facilities granted to the Group.

Investments

As at 30 June 2004, the Group held a portfolio of listed securities with market value of HK\$70.9 million, and convertible notes of HK\$38.1 million issued by companies listed on the Stock Exchange of Hong Kong Limited. The dividend and interest income from these investments for the period were HK\$0.4 million and HK\$1.0 million respectively. The unrealized holding gain on listed securities amounted to HK\$8.8 million as at 30 June 2004.

Subsequent to 30 June 2004, a convertible note receivable of HK\$10.5 million was redeemed on its maturity to the value of HK\$11,235,929.00 which includes principal and outstanding interests for the period from 1 January 2004 to 3 July 2004.

Contingent Liabilities

At the balance sheet date, the Company had contingent liabilities in respect of guarantees amounting to HK\$20 million given to banks for general banking facilities granted to subsidiaries. None of this banking facilities was utilized as at 30 June 2004.

As at 30 June 2004, the Group had no other material contingencies.

OTHER INFORMATION

Directors' Interests

As at 30 June 2004, the interests and short positions of the directors and chief executive of the Company 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 recorded in the register required to be kept by the Company under section 352 of the SFO, or as 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 of the Listing Rules were as follows:

(a) *Interests in shares of the Company (long positions)*

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)	2,352,396,360	59.71%
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 (long positions)*

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	37.79%
	Personal	53,320,000	0.63%
Mr. Lam Hiu Lo	Total	3,247,754,684	38.42%
	Personal	41,800,000	0.49%

(c) *Interests in underlying shares of Yugang (long positions)*

Name of director	Nature of interest	Number of underlying shares held	Percentage of issued share capital
Mr. Cheung Chung Kiu	Corporate (note 4)	1,766,666,666	20.90%

Notes:

- Such 2,352,396,360 shares are held through Regulator Holdings Limited ("Regulator"), an indirect wholly-owned subsidiary of Yugang, which is, in turn, owned as to 37.79% by Chongqing Industrial Ltd ("Chongqing"). Mr. Cheung Chung Kiu is deemed to be interested in these shares by virtue of his indirect shareholding interests in Regulator.
- Such 3,194,434,684 shares are held by Chongqing. Mr. Cheung Chung Kiu is deemed to be interested in these shares by virtue of his shareholding interests in Chongqing.
- 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.
- Such interests are derived from convertible notes issued by Yugang to Timmex Investments Ltd, in which Mr. Cheung Chung Kiu has 100% beneficial interest, and consisting of:
 - A convertible note of principal amount of HK\$100,000,000 with maturity date on 31 July 2004 which 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. On 9 June 2004, Timmex Investments Ltd has given an undertaking to Yugang that it will not exercise conversion rights attached to the convertible note.
 - A convertible note of principal amount of HK\$70,000,000 which can be converted into Yugang's shares at a conversion price of HK\$0.075 per share during the period from the date of issue of the convertible note ("Date of Issue") up to the first anniversary of the Date of Issue, HK\$0.082 per share for the period from the date immediately following the first anniversary of the Date of Issue up to the second anniversary of the Date of Issue and HK\$0.089 per share for the period from the date immediately following the second anniversary of the Date of Issue up to the third anniversary of the Date of Issue, subject to adjustment. The conditional agreement dated 25 May 2004 in respect of the issue of the convertible note became unconditional and was completed on 31 July 2004 and thus rendering the convertible note effective on that date.

The total number of underlying shares of the convertible notes will change with the change of conversion prices from year to year, and as at 30 June 2004 were (a) 833,333,333 and (b) 933,333,333 shares respectively.

Save as disclosed above, as at 30 June 2004, the Company had not been notified of any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under 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.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Directors' Interests" 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 rights to subscribe for shares of the Company, or had exercised any such rights during the period.

Substantial Shareholders' Interests

As at 30 June 2004, the following persons (other than the directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder (long positions)	Number of shares held	Percentage of issued share capital
Regulator	2,352,396,360 (<i>note</i>)	59.71%
Yugang International (B.V.I.) Limited ("Yugang-BVI")	2,352,396,360 (<i>note</i>)	59.71%
Yugang	2,352,396,360 (<i>note</i>)	59.71%
Chongqing	2,352,396,360 (<i>note</i>)	59.71%
Palin Holdings Limited ("Palin")	2,352,396,360 (<i>note</i>)	59.71%

Note: The interests held by Regulator, Yugang-BVI, Yugang, Chongqing and Palin respectively as shown above refer to interests in the same block of shares. Regulator is a direct wholly-owned subsidiary of Yugang-BVI, Yugang-BVI is in turn a direct wholly-owned subsidiary of Yugang, and Yugang is owned by Chongqing as to 37.79%, which is controlled by Mr. Cheung Chung Kiu. The said interests are also duplicated with the interest in shares of the Company of Mr. Cheung Chung Kiu as disclosed under the heading "Directors' Interests" above.

Save as disclosed above, as at 30 June 2004, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company to be recorded in the register required to be kept by the Company under section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2004, 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 2004.

The interim financial statements for the six months ended 30 June 2004 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 2004, 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, 17 September 2004