EURO-ASIA AGRICULTURAL (HOLDINGS) COMPANY LIMITED

歐亞農業(控股)有限公司 *

(incorporated in Bermuda with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2002

FINANCIAL HIGHLIGHTS
Half-Year Results to 30 June 2002 as compared to the corresponding six months ended 30 June 2001

• Turnover	+57%	to RMB796 million
• Gross Profit	+22%	to RMB350 million
• Profit attributable to shareholders	+9%	to RMB291 million
• Operating Margin	38%	down from 53% in 2001

The Board of Directors (the "Board") of Euro-Asia Agricultural (Holdings) Company Limited (the "Company") is pleased to announce the unaudited interim results and condensed accounts for the six months ended 30 June 2002 of the Company and its subsidiaries (collectively the "Group"). The unaudited interim financial report has been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	**Unaudited Six months ended 30 June** **2002** *RMB'000*	**As restated** **2001** *RMB'000* *(Note 1(b))*
Turnover	2	795,934	507,119
Agricultural tax	5(c)	(768)	(638)
Net sales		795,166	506,481
Cost of sales	3(b)	(445,510)	(219,262)
Gross profit		349,656	287,219
Other revenue		1,984	103
Research and development expenses	3(c)	(3,450)	—
Distribution expenses		(20,819)	(12,812)
General and administrative expenses		(26,732)	(7,005)
Operating profit	3	300,639	267,505
Finance costs	4	(10,014)	—
Profit before taxation		290,625	267,505
Taxation	5	—	—
Profit attributable to shareholders		290,625	267,505
Transfer to statutory reserve fund		(30,585)	(21,940)
		260,040	245,565
Dividends	6	119,852	—
Earnings per share	7	RMB17.51 cents	RMB22.29 cents

Notes:

1. **Basis of preparation and accounting policies**

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2001 annual financial statements.

(a) *Change of accounting policies*

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised): Presentation of financial statements
SSAP 11 (revised): Foreign currency translation
SSAP 15 (revised): Cash flow statements
SSAP 25 (revised): Interim financial reporting
SSAP 34: Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(1) **SSAP 11 (revised): Foreign currency translation**

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

(2) **SSAP 34: Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

In prior periods, no provision was made for employee annual and long service leave entitlements. The adoption of SSAP 34 has meant that adjustments on provision for employee annual and long service leave entitlements have been made retrospectively so that the comparatives presented have been restated.

(ii) *Pension obligations*

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the company to the fund.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. When the contributions do not fall due wholly within twelve months after the end of period in which the employees render the related service, the contributions should be discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

(iii) *Equity compensation benefits*

Share options are granted to directors and to employees at the discretion of the directors. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, a compensation cost is recognised in the profit and loss account based on that discount. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

There is no material impact to the financial results and the financial position of the Group by the adoption SSAP 34.

(b) *Grant of concessionary treatment for agricultural tax*

As mentioned in Note 5(c) below, the Group received a notice dated 12 December 2001 from the Shenyang Yu Hong District Finance Bureau that a concessionary treatment in respect of agricultural tax was granted to the Group for a tentative period of 3 years with effect from 1 January 2001 to 31 December 2003.

Taking into consideration that this concessionary treatment was retrospectively effective since 1 January 2001, the unaudited consolidated net profit for the six months ended 30 June 2001 has been revised from RMB217 million to RMB267 million, as a result of the decrease of agricultural tax of about RMB50 million, based on the turnover for the six months ended 30 June 2001 of RMB507 million as reported in the interim report of the Company published on 7 September 2001.

2. **Segmental information**

The Group is principally engaged in the hybridisation, propagation, cultivation, production and sale of floricultural and agricultural produce.

(a) An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2002				**Six months ended 30 June 2001**
	Sales of seedlings and flowers	**Sales of trading vegetables**	**Sales of self-grown vegetables**	**Total**	**Sales of seedlings and flowers**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	657,801	126,532	11,601	795,934	507,119
Agricultural tax	(763)	—	(5)	(768)	(638)
Net sales	657,038	126,532	11,596	795,166	506,481
Cost of sales	(335,006)	(102,167)	(8,337)	(445,510)	(219,262)
Gross profit	322,032	24,365	3,259	349,656	287,219
Unallocated items:					
Other revenues				1,984	103
Research and development expenses				(3,450)	—
Distribution expenses				(20,819)	(12,812)
General and administrative expenses				(26,732)	(7,005)
Operating profit				300,639	267,505
Finance costs				(10,014)	—
Profit before taxation				290,625	267,505
Taxation				—	—
Profit attributable to shareholders				290,625	267,505

During the six months ended 30 June 2002, there were no sales or other transactions between the business segments.

(b) An analysis of the Group's revenue and results for the period by geographical segments is as follows:

(1)

	Six months ended 30 June 2002			
	Japan	**The Netherlands**	**The PRC**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	221,302	263,637	310,995	795,934
Agricultural tax	(66)	(175)	(527)	(768)
Net sales	221,236	263,462	310,468	795,166
Cost of sales	(137,841)	(76,646)	(231,023)	(445,510)
Gross profit	83,395	186,816	79,445	349,656
Unallocated items:				
Other revenues				1,984
Research and development expenses				(3,450)
Distribution expenses				(20,819)
General and administrative expenses				(26,732)
Operating profit				300,639
Finance costs				(10,014)
Profit before taxation				290,625
Taxation				—
Profit attributable to shareholders				290,625

(2)

	Six months ended 30 June 2001				
	Japan	**Korea**	**The Netherlands**	**The PRC**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	61,512	56,897	180,541	208,169	507,119
Agricultural tax	(47)	(40)	(176)	(375)	(638)
Net sales	61,465	56,857	180,365	207,794	506,481
Cost of sales	(13,630)	(16,292)	(60,415)	(128,925)	(219,262)
Gross profit	47,835	40,565	119,950	78,869	287,219
Unallocated items:					
Other revenues					103
Research and development expenses					—
Distribution expenses					(12,812)
General and administrative expenses					(7,005)
Operating profit					267,505
Finance costs					—
Profit before taxation					267,505
Taxation					—
Profit attributable to shareholders					267,505

(c) The Group's operations are primarily performed in the PRC, where substantially all of its consolidated assets and liabilities are located.

Each of the business activities of trading vegetables and self-grown vegetables accounted for less than 10% of the Group's consolidated assets and liabilities. Therefore, an analysis of consolidated assets and liabilities by business activity is not considered necessary.

3. **Operating profit**

(a) Operating profit is stated after crediting and charging the following:

	Unaudited Six months ended 30 June 2002	2001
	RMB'000	*RMB'000*
Crediting		
Interest income on bank deposits	1,680	103
Charging		
Staff costs (including directors' emoluments)	11,063	4,158
Cost of sales (Note (b) below)	445,510	219,262
Interest expense	10,014	—
Exchange loss, net	806	97
Transport agency fees	4,945	3,131
Export agency fees	14,003	11,716
Rental expense	1,369	—
Professional fees	3,446	102
Depreciation of leasehold improvements, computer equipment, motor vehicles, furniture and office equipment	2,581	751
Research and development expenses (Note (c) below)	3,450	—

(b) Details of cost of sales of the Group are set out below:

	Unaudited Six months ended 30 June 2002	2001
	RMB'000	*RMB'000*
Cost of inventories	408,800	188,558
Production costs		
- Depreciation of		
● Owned greenhouses and auxiliary facilities	8,021	6,835
● Owned production machinery and equipment	86	86
- Operating lease rental of land	1,029	840
- Amortisation of prepaid rental	269	185
- Greenhouse management fees	738	661
- Utility expenses	2,681	636
- Raw materials	5,837	—
- Labour costs	1,769	708
- Laboratory costs		
● Depreciation of owned greenhouse laboratory	884	973
● Depreciation of owned production machinery and equipment	214	—
● Greenhouse laboratory management fees	12	24
● Labour	707	590
● Rental expense	31	31
● Direct expenses and raw materials consumed	14,248	18,926
● Utility expenses	184	209
	36,710	30,704
	445,510	219,262

(c) Details of research and development expenses of the Group are set out below:

	Unaudited Six months ended 30 June 2002 RMB'000	2001 RMB'000
Depreciation of owned greenhouse laboratory, production machinery and equipment	1,218	—
Labour	735	—
Rental expense	420	—
Raw materials consumed	185	—
Utility expenses	876	—
Others	16	—
	3,450	—

4. **Finance costs**

Finance costs represent interest on the bank loan and are charged to the income statement in the period in which they are incurred.

5. **Taxation**

The Group is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which they operate.

(a) The Company is exempted from taxation in Bermuda until 28 March 2016. No provision for Hong Kong profits tax has been made as there are no estimated assessable profits (2001: Nil) generated from the operations in Hong Kong during the year.

(b) **Enterprise Income Tax ("EIT")**

In accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC, Shenyang Euro-Asia Agriculture Development Co., Ltd. ("SEAA"), being a wholly foreign-owned enterprise established by the Group in the PRC with an operating period of more than ten years, is entitled to full exemption from state income tax and local income tax for two years and five years respectively commencing from the first profit-making year after offsetting prior year's losses (being the year ended 31 December 2001), followed by a 50% reduction of both state income tax and local income tax for the next three years. The rates of state income tax and local income tax applicable to SEAA are 30% and 3% respectively.

(c) **Agricultural tax**

Before 2001, the agricultural tax liability was calculated at a rate of 10% on the sales revenue of the floricultural produce sold by the Group. Under a notice dated 12 December 2001 issued by Shenyang Yu Hong District Finance Bureau, a special concessionary treatment was granted to the Group under which the agricultural tax was calculated at an annual rate of RMB5,000 and RMB200 per mu of farmland occupied by the Group for the growth of flowers and vegetables respectively. The concessionary treatment was granted by the local district finance bureau for a tentative period of 3 years with effect from 1 January 2001 to 31 December 2003.

Taking into consideration that this concessionary treatment was retrospectively effective since 1 January 2001, the unaudited consolidated net profit for the six months ended 30 June 2001 has been revised from RMB217 million to RMB267 million, as a result of the decrease of agricultural tax of about RMB50 million, based on the turnover for the six months ended 30 June 2001 of RMB507 million as reported in the interim report of the Company published on 7 September 2001.

(d) **Value-added tax**

Value-added tax was calculated at a rate of 4% of the total trading sales of vegetables.

(e) **Deferred taxation**

There was no material deferred taxation for the Group and the Company as at 30 June 2002 or for the Group for the period then ended (2001: Nil).

(f) Taxation payable represents PRC agricultural tax and value-added tax payable as at 30 June 2002.

6. **Dividends**

At a meeting held on 12 September 2002, the directors declared an interim dividend of HK$0.02 (equivalent to RMB0.0212) (2001: Nil) per share for the year ending 31 December 2002. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2002.

7. **Earnings per share**

Basic earnings per share is calculated based on the profit attributable to shareholders of approximately RMB290,625,000 and on the weighted average number of 1,660,000,000 shares in issue during the six months ended 30 June 2002.

The comparative earnings per share is calculated based on the profit attributable to shareholders of RMB267,505,000 and the 1,200,000,000 shares deemed to be in issue throughout the six months ended 30 June 2001. As explained in Note 5(c), due to the concessionary treatment for agricultural tax, the profit figure is different from previously reported in the interim report of the Company published on 7 September 2001.

There were no potential dilutive shares in existence for the six months ended 30 June 2002 and 2001; therefore, no diluted earnings per share is presented.

8. **Subsequent events**

(a) On 5 August 2002, a ordinary resolution for the adoption of a share option scheme was duly passed by the shareholders. The share option scheme became unconditional on 8 August 2002.

Details of the share option scheme are disclosed in the circular dated 19 July 2002 issued by the Company.

No share option had been granted since the adoption of the share option scheme.

(b) On 6 August 2002, Mr. Yang Bin, the Company's Chairman and controlling shareholder, had reduced his shareholding in the Company by a sale of 300 million shares. Before the sale, Mr. Yang Bin held 1,196,242,000 shares representing approximately 72.06% of the entire issued share capital of the Company. After the sale, Mr. Yang Bin holds 896,242,000 shares representing approximately 54% of the entire issued share capital of the Company. The shares of Mr. Yang Bin are held through Wise Capital Investments Limited, a company wholly-owned by Mr. Yang Bin.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group engages in Dutch technology-based greenhouse cultivation and integrated processing of Orchid seedlings and other flowers and vegetables for sale to wholesalers, growers, export agents and importers. Geographical sales have been mainly biased to export markets. Historically and same for the Period, domestic sales made up approximately 40% of total turnover.

(i) **Segmental Information**

Sales turnover in the Period grew by approximately 57% to approximately RMB796 million and operating margin for the Period was 38%. By product mix, Orchid seedlings of Phalaenopsis and Cymbidium dominated approximately 60% of total turnover. Sales of Phalaenopsis and Cymbidium grew 35% and 21% respectively, reflecting strong demand and rising popularity of Orchids as ornamental flowers. Sales of other flowers edged up to approximately 23% of total turnover, and reported growth of 150% over the same period in 2001. Overall gross profit margin on sales of seedlings and flowers was 49%. During the Period, export processing and trading of vegetables (mainly broccoli, pod peas and hairy beans) to the Japanese market continued to grow. The contribution from the sale of vegetables continued to expand commanding 17% of total turnover and had a gross profit margin of 20%.

Domestic sales and export sales recorded 39% and 61 % of total turnover respectively, principally the same as the six months ended 30 June 2001. By destination, domestic sales of young plants of Orchids were concentrated in the provinces located in the Northeastern part of China, however, there was increasing demand from provinces in the Southern part of China, mainly from Yunan and Suzhou. With respect to export sales, the most significant changes were: (1) exports to Japan increased by 16 percentage points to 28% of total turnover fuelled by the export of processed vegetables, whereas exports to the Netherlands fell slightly accounting for 33% of total turnover, and (2) exports to South Korea came to a halt due to a change in a sales tactic to eliminate potential competition for the same export market. Gross profit margins on domestic sales and export sales were 26% and 56% respectively.

By activity, greenhouse cultivation of floricultural produces and vegetables accounted for 31% of total turnover, and resulted in sales growth of 55%. The newly acquired 10-hectares of greenhouses were put into operation in March 2002 which further expanded the greenhouse production capacity. Gross profit margin of processing and trading was 26%, whereas that of greenhouse cultivation was 82%.

(ii) **Profitability**

Gross profit margin was 44% for the six months ended 30 June 2002, compared with 57% for the six months ended 30 June 2001, and 53% for the full year ended 31 December 2001. The reduction in gross profit margin is principally attributable to the expansion in processing and the trading of floricultural products to Japan.

Sale of floricultural products to domestic China dampened overall gross margin slightly more than the export trading of vegetables to Japan. Domestic floricultural prices of Euro-Asia's produces fell by an average of 18% in the first half of the year, which contributed to the cut in gross margin. In summary, the momentum in the growth of export trading of processed floricultural produce and the diversification into other flowers and vegetables have, as expected, normalized overall gross margin of Euro-Asia's horticultural produces. The Board believes that the risk and return of Euro-Asia's current portfolio of horticultural produces should represent a more optimized and sustainable profit mix than the previous two-product portfolio in the seedling and young plants of Phalaenopsis and Cymbidium.

(iii) **Investments**

As explained in the Annual Report of the Company for the year ended 31 December 2001, the Group established a subsidiary ('the "Subsidiary") in the PRC as a wholly foreign-owned enterprise in December 2001, with registered capital of USD28.9 million (RMB239.9 million). According to its Article of Association, the capital has to be paid up within 2 years from the date of incorporation by three instalments. The principal activity of the Subsidiary is the cultivation of floricultural and agricultural produces. The Subsidiary plans to own the newly constructed 40-hectares of greenhouses after paid up of capital for tax planning purpose.

During the first six months ended 30 June 2002, the Group identified an investment opportunity to acquire two agricultural projects through two companies in Yunan province of the PRC, namely 屏邊民生資源有限公司 ("Bing Bian Co.") and 思茅市雨林谷生態食品有限公司 ("Si Mao Co.").

Pursuant to an agreement dated 30 March 2002, SEAA will take over Bing Bian Co's tangible and intangible assets at a consideration of RMB40 million. A deposit of RMB30 million was paid by SEAA in June 2002 according to the agreement. The acquisition of Bing Bian Co. will benefit the Group in extending the variety of Orchid seedlings and enhancing the nurturing quality of floricultural produces.

Pursuant to a separate agreement dated 4 April 2002 (the "Agreement"), SEAA will also take over the production equipment, cold storage facilities, production bases, production techniques and clienteles of Si Mao Co., in order to complement its processing capacity in tropical vegetables and fruit. The purchase consideration of Si Mao Co. is RMB50 million, of which RMB30 million is for the acquisition of production equipment and factory, RMB10 million is for the acquisition of plantation sites, and RMB10 million is for the acquisition of production techniques and clienteles. A payment of RMB30 million as part of purchase consideration of Si Mao Co. was made in June 2002. A further advance of RMB8 million has made to Si Mao Co., the repayment of which will be deducted from the balance of the consideration payable on completion. The acquisition of Si Mao Co. will benefit the Group in the processing of vegetables and fruit, leading to a more optimized and sustainable product mix over the long run.

Prospects

The first six months of 2002 has been both a positive half-year and a difficult half- year. On the positive side, sales turnover by volume have been robust, with export sales to Japan, the Group's major target market, advancing nicely in all respects, including floricultural products and processed vegetables. Acquisition of new customers has also been progressing well. On the negative side, the brief decline, and subsequent surge in Japanese yen affected gross margin in terms of lower export prices despite limited foreign exchange translation risk due to price quotation substantially in US dollar. Competition in the domestic Chinese market also hit gross margins as retail prices decreased.

Going forward, the business development with respect to the export sale of floricultural produces and processed vegetables is expected to remain robust in the second half of 2002.

Processing and trading of vegetables will continue to do well apart from the contribution from the 10 hectares of new greenhouses. Meanwhile, the 40 hectares of greenhouses under construction is expected to contribute revenue in 2003 as the first crop is harvested. This will have a temporary negative impact on gross margin as depreciation charges and input costs are not matched by corresponding revenues in 2002.

As China accedes to World Trade Organisation, the Board believes that Chinese horticultural produce and processed agricultural produces have huge cost advantages when compared with the prices of similar produces around the world. The Board is aware of and also determines to invest in processing, particularly packaging, to reduce perishability and increase food safety in such produces. The household consumer market is also highlighted by the Board as high margin horticultural segment, with relatively smaller risk when compared with the business segment of the market which is ornamental and hence very elastic characteristically.

In regard of business risk, the Board recognizes that market information management and knowledge management as the two major aspects of risk management to upgrade as the Group penetrates deeper into the Japanese market on the one hand, and integrates further into the purchasing logistic systems of major Japanese, European and American hyper-market chain stores on the other hand. In addition, the Board realizes that the Group's current skills in contract negotiation within the sales management department need to be strengthened in order to cope with the growing competitiveness resulted from globalisation. Centralised procurement function is also an area that calls for closer attention as the scale of operation expands. In the long run, the Board endeavours to pursue a mix between different variations of greenhouse horticultural produces and the nurturing of their seedlings such that the long term aggregate net profit margin is stablised and sustainable after the current tax holiday and tax concession lapse from 2003 and onwards. (Tax savings together accounted for 25 percentage points of net profit margin in 2001).

Liquidity and financial resources

Current ratio stayed high at 3.1 times (31 December 2001: 7.2 times) and quick ratio at 2.0 times (31 December 2001: 3.7 times) due to the strong cash generated from the underlying business to support the receivables and prepayments to procure produce for processing and exports. The drop in liquidity ratio was due mainly to the increase in bank borrowings for the acquisition of fixed assets and utilization for working capital. The expansion of trading of vegetables to the Japanese market has lengthened the trade receivable turnover by an average of 4.5 days to 16.5 days, as the new customers are granted a longer credit period for their orders. However, 95% of total trade receivables ages within 1 month. The shortening of inventory turnover to 24.5 days from 29 days evidenced a higher operational efficiency of the Group. Internal cash resources include cash and bank balances as well as standby general banking facilities. As at 30 June 2002, the Group's cash and bank balances were recorded at RMB397.8 million, while the Group's short-term bank borrowings was RMB109.2million and non-current bank borrowings was RMB124 million. Net cash position was therefore RMB164.6 million.

During the Period, the Group did not use any financial instrument for hedging purposes and did not have any hedging instrument outstanding as at 30 June 2002.

Capital structure and charges on Group assets

As at 30 June 2002, the shareholders' funds after distribution of final dividends of 2001 were approximately RMB1,608 million, up 12% from approximately RMB1,437 million at the end of 2001.

The Group was granted a bilateral 3-year revolving credit facility of HK$30 million from a commercial bank in Hong Kong in December 2001, and another bilateral 3-year short-term money market revolving credit facility of HK$30 million from another commercial bank in Hong Kong in February 2002. The three-year borrowing cost for both credit facilities is HIBOR plus 1.875% per annum. In the first quarter of 2002, the Group obtained a 50-months RMB159 million term loan from a PRC bank. The borrowing cost was fixed at 6.534% per annum. The principal of the loan will be repaid by RMB35 million in April 2003, with the second payment of RMB40 million in April 2004, and the third and final repayment of RMB42 million in April 2005 and April 2006 respectively. In May 2002, the Group was granted by another commercial bank in Hong Kong a short-term loan facility of HK$140 million of which HK$10.03 million was outstanding as at 30 June 2002. The loan was fully repaid in mid-August 2002 and the loan facility lapses accordingly.

The gearing ratio of the Group remained low at approximately 14% (31 December 2001: 2%) as calculated based on the aggregate amount of interest bearing borrowings of approximately RMB233 million (31 December 2001: RMB32 million) and the shareholders funds of approximately RMB1,608 million (31 December 2001: RMB1,437 million) at the end of 30 June 2002. There is no asset pledge for all the Group's borrowings.

Employment and remuneration policy

As at 30 June 2002, the total number of employees was 371, up from 322 at end of 2001. There were 50 management staff and 321 workers at 30 June 2002, up from 32 management staff and 290 workers at end of 2001 respectively. The Group recognizes the importance of its human resources to its success. Therefore, salaries and wages are determined based on employees' talents and experience, with discretionary bonuses awarded to outstanding employees on a merit basis. Other staff benefits provided by the Group include mandatory provident fund in Hong Kong, insurance schemes, training programs and share option scheme.

Under the share option scheme as approved for adoption by shareholders at the Special General Meeting on 5 August 2002 which became unconditional on 8 August 2002, the directors of the Company may grant options to the eligible participants to subscribe for shares of the Company. The purpose of the scheme is to provide reward to selected participants as incentives to recognize past contributions and to contribute further to the Group. As at the date of this report, no share options have been granted under the share option scheme.

Contingent liabilities

The Group had no material contingent liability as at 30 June 2002.

Purchase, sale or redemption of listed securities

The Company has not redeemed any of its shares during the Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the Period.

Directors' interests in equity or debt securities

As at 30 June 2002, the interests of the directors and the Chief Executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in the Company

	Number of ordinary shares				
Name of Director / of Chief Executive	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Number share options**
Mr. Yang Bin	—	—	1,196,242,000 *(Note)*	—	—

Note: The shares of Mr. Yang Bin are held through Wise Capital Investments Limited ("Wise Capital"), a company incorporated in Mauritius which is legally and wholly-owned by Mr. Yang Bin who is entitled to exercise 100% of the voting powers at general meetings of Wise Capital. On 6 August 2002, Wise Capital disposed of 300 million shares in the Company. Details of which has been disclosed by an announcement dated 7 August 2002.

Other than as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporation as defined in the SDI Ordinance as at 30 June 2002. None of the directors (including their spouse and children under 18 year of age) have been granted, or have exercised, any right to subscribe for shares (or warrants or debentures, if applicable) of the Company.

Substantial shareholders

As at 30 June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had a beneficial interest of 10 per cent or more in the issued share capital of the Company:

Name of shareholder	**Number of shares**	**%**
Wise Capital Investments Limited *(Note)*	1,196,242,000	72.06

Note: Wise Capital Investments Limited is a company incorporated in Mauritius with limited liability which is legally and wholly-owned by Mr. Yang Bin.

On 6 August 2002, Wise Capital Investments Limited disposed of 300 million shares in the Company, thereby reducing its shareholding percentage in the Company to approximately 54%.

Interim dividend

At a meeting held on 12 September 2002, the directors declared an interim dividend of HK$0.02 (equivalent to RMB0.0212) (2001: Nil) per share for the year ending 31 December 2002 totalling HK$33,200,000 (equivalent to RMB35,192,000) to the shareholders whose names appear on the register the members of the Company at 4:00 p.m. on 30 September 2002. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2002.

In order to qualify for entitlement of the interim dividends declared, the shareholders should lodge all completed transfer forms, accompanied by the relevant share certificates, with the Company's Hong Kong Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 30 September 2002. Dividend will be despatched to shareholders on or about 15 November 2002 in the form of cheques.

Compliance with the code of best practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules governing the Listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") at any time during the Period.

Audit committee

The audit committee comprising of Mr. Li Weibin and Mr. Wang Xiaojun, the two independent non-executive directors of the Company, has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the Period with the directors.

Disclosure of information on the website of The Stock Exchange of Hong Kong Limited

A detailed results announcement containing all the information required by paragraphs 46 (1) to 46(6) of Appendix 16 of the Listing Rules will be subsequently published on the The Stock Exchange of Hong Kong Limited's website in due course.

On behalf of the Board
Yang Bin
Chairman

Hong Kong, 12 September 2002

* *For identification purposes only*

Please also refer to the published version of this announcement in The Standard.