

enewmedia

Interim Report
2003

e-New Media Company Limited

The Board of Directors (the "Board") of e-New Media Company Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003, together with unaudited comparative figures for the corresponding period in 2002.

CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2003 - unaudited
(Expressed in Hong Kong dollars)*

	Note	Six months ended 30 June	
		2003 \$'000	2002 \$'000
Turnover	2	54,519	73,011
Cost of sales		<u>(16,252)</u>	<u>(55,870)</u>
Gross profit		38,267	17,141
Other revenue		907	2,734
Other net loss		(666)	(18,763)
Selling and administrative expenses		(33,032)	(42,587)
Other operating expenses		<u>(6,683)</u>	<u>(8,130)</u>
Loss from operations	2	(1,207)	(49,605)
Finance costs	3	(518)	(1,354)
Share of profits less losses of associates		<u>(1,973)</u>	<u>24</u>
Loss from ordinary activities before taxation	3	(3,698)	(50,935)
Taxation	4	<u>5</u>	<u>47</u>
Loss from ordinary activities after taxation		(3,693)	(50,888)
Minority interests		<u>19</u>	<u>—</u>
Loss for the period attributable to shareholders		<u><u>(3,674)</u></u>	<u><u>(50,888)</u></u>
Loss per share			
- Basic and diluted	5	<u><u>(0.22) cents</u></u>	<u><u>(3.08) cents</u></u>

The notes on pages 6 to 11 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

As at 30 June 2003 - unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2003		At 31 December 2002	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets	6				
- Investment properties			3,600		3,600
- Other property and equipment			156,213		161,365
			<u>159,813</u>		<u>164,965</u>
Goodwill			685		—
Interest in associates			26,366		29,121
Interest in jointly controlled entities (fully provided for)			—		—
Investment securities			56,696		56,696
Other investments			59,647		51,867
			<u>303,207</u>		<u>302,649</u>
Current assets					
Short term investments		101,423		102,082	
Inventories		1,022		368	
Trade and other receivables	7	49,029		73,163	
Pledged deposits		47,536		47,536	
Cash and bank balances		589,972		573,576	
		<u>788,982</u>		<u>796,725</u>	
Current liabilities					
Trade and other payables	8	82,342		85,646	
Bank loans and overdrafts, secured		46,680		46,680	
Current portion of debentures	9	4,060		4,540	
Other loans, unsecured		5,207		5,207	
Taxation		5,338		5,474	
		<u>143,627</u>		<u>147,547</u>	
Net current assets			<u>645,355</u>		<u>649,178</u>
Total assets less current liabilities carried forward			<u>948,562</u>		<u>951,827</u>

CONSOLIDATED BALANCE SHEET

As at 30 June 2003 - unaudited (continued)

(Expressed in Hong Kong dollars)

	Note	At 30 June 2003		At 31 December 2002	
		\$'000	\$'000	\$'000	\$'000
Total assets less current liabilities brought forward			948,562		951,827
Non-current liabilities					
Debentures	9	7,284		7,224	
Deferred taxation		89		89	
			<u>7,373</u>		<u>7,313</u>
NET ASSETS			<u>941,189</u>		<u>944,514</u>
CAPITAL AND RESERVES					
Share capital	10		16,507		16,507
Reserves	11		<u>924,682</u>		<u>928,007</u>
			<u>941,189</u>		<u>944,514</u>

The notes on pages 6 to 11 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003 - unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2003	2002
		\$'000	\$'000
Shareholders' equity at 1 January		944,514	1,033,564
Net gains not recognised in the income statement - exchange differences	11	349	338
Loss for the period attributable to shareholders	11	(3,674)	(50,888)
Shareholders' equity at 30 June		<u>941,189</u>	<u>983,014</u>

The notes on pages 6 to 11 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003 - unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Net cash used in operating activities	(12,279)	(12,450)
Net cash from investing activities	29,544	1,244
Net cash used in financing activities	(944)	(3,854)
Net increase/(decrease) in cash and cash equivalents	16,321	(15,060)
Effect of foreign exchange rate changes	75	54
Cash and cash equivalents at 1 January	573,576	609,736
Cash and cash equivalents at 30 June	<u>589,972</u>	<u>594,730</u>

The notes on pages 6 to 11 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the Board of Directors is included on page 12.

This interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 April 2003.

The same accounting policies as adopted in the 2002 annual financial statements have been applied to the interim financial report, except for the adoption of SSAP 12 (revised) “Income taxes” issued by the HKSA.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised), the Group adopted a new policy for deferred tax.

Under the revised SSAP 12, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The adoption of the revised SSAP 12 has no material effect on the Group’s results and net assets for the current or the prior period.

2 SEGMENTAL INFORMATION

The principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial period were as follows:

Principal activities

	Group turnover		Contribution to loss from operations	
	Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Provision of telecommunications and data bureau services *	39,190	53,602	9,095	(22,598)
Recreational club operation	10,455	12,086	(5,297)	(5,240)
Investment holding and trading of securities	4,874	7,323	(4,032)	(18,906)
Provision of e-commerce enabling technologies	—	—	(34)	(643)
	<u>54,519</u>	<u>73,011</u>	<u>(268)</u>	<u>(47,387)</u>
Other group expenses			(939)	(2,218)
			<u>(1,207)</u>	<u>(49,605)</u>

Geographical locations of operations

	Group turnover	
	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Hong Kong Special Administrative Region ("HKSAR")	14,029	18,616
The People's Republic of China (excluding HKSAR)	1,672	1,734
Japan	499	18,695
Other Asia Pacific regions	1,677	2,972
Europe	8,638	27,160
North America	27,969	2,575
Others	35	1,259
	<u>54,519</u>	<u>73,011</u>

* Included in turnover from the provision of telecommunications and data bureau services for the six months ended 30 June 2003 is a sum of \$25,572,000 received from a final transit carrier in respect of traffic revenue generated in prior years which was not recognised previously in view of the uncertainty of its collectibility.

3 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Amortisation of goodwill	938	907
Depreciation	5,731	6,442
Dividend income	(3,227)	(1,259)
Interest income	(3,826)	(6,064)
Interest on borrowings	518	1,354
Net exchange loss/(gain)	314	(336)
Net loss on disposal of fixed assets	8	44
Net realised and unrealised loss on investments in securities	658	18,721

4 TAXATION

Taxation included in the consolidated income statement represents reversal of overseas taxation over-provided in prior years.

No provision for current taxation has been made in the consolidated income statement for the six months ended 30 June 2003 as the Company and its subsidiaries either had tax losses for the period or had tax losses brought forward which were sufficient to offset the taxable profits for the period ended 30 June 2003.

No provision for deferred taxation has been made in the consolidated income statement for the six months ended 30 June 2003 as the Company and its subsidiaries had tax losses brought forward which were sufficient to offset the taxable temporary differences as at 30 June 2003.

5 LOSS PER SHARE

(a) *Basic loss per share*

The calculation of basic loss per share is based on the loss attributable to shareholders of \$3,674,000 (2002: \$50,888,000) and the number of 1,650,658,000 (2002: 1,650,658,000) ordinary shares in issue during the period.

(b) *Diluted loss per share*

The potential issue of ordinary shares in connection with the Company's share options would not give rise to an increase in loss per share and therefore had no dilutive effect on the calculation of the diluted loss per share.

6 FIXED ASSETS

The directors consider that there have been no significant changes to the open market values of the land and buildings and investment properties since 31 December 2002.

7 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
0 - 1 month	2,020	3,065
2 - 3 months	1,491	4,394
Over 3 months	24,180	6,188
Total trade receivables	27,691	13,647
Deposits, prepayments and other receivables	21,338	59,516
	49,029	73,163

The Group maintains a defined credit policy for its trade customers and the credit terms given vary according to the business activities. The financial strengths of and the period of business with individual customers are considered in arriving at respective credit terms. Reviews of major receivables are conducted regularly.

8 TRADE AND OTHER PAYABLES

All trade and other payables are due within one month or on demand.

9 DEBENTURES

Each debenture holder is entitled to be a debenture member of the Hilltop Country Club (the "Club") subject to the Club Rules and By-laws for so long as the debentures shall remain outstanding, and has the right to use and enjoy all the facilities of the Club free from monthly subscription. At 30 June 2003, the Group's debentures were redeemable as follows:

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Within one year	4,060	4,540
In the second year	780	480
In the third to fifth year	6,504	6,744
	7,284	7,224
	11,344	11,764

All redeemable debentures are non-interest bearing and may be renewed upon maturity subject to the Group's prior consent.

10 SHARE CAPITAL

	At 30 June 2003		At 31 December 2002	
	No. of shares ('000)	\$'000	No. of shares ('000)	\$'000
Authorised:				
Ordinary shares of \$0.01 each	<u>100,000,000</u>	<u>1,000,000</u>	<u>100,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Ordinary shares of \$0.01 each	<u>1,650,658</u>	<u>16,507</u>	<u>1,650,658</u>	<u>16,507</u>

In 2002, the Company underwent a capital reorganisation scheme, details of which are set out in note 28 on the Company's statutory financial statements for the year ended 31 December 2002.

At 30 June 2003, there were outstanding share options as follows:

Date of grant	Exercise price	Number of options outstanding at the period end
11 October 1999	\$1.528	636,000
22 October 1999	\$1.530	300,000
1 December 1999	\$1.804	96,000
27 March 2000	\$1.900	1,950,000
1 August 2000	\$0.630	324,000
18 September 2000	\$0.670	200,000
		<u>3,506,000</u>

These share options are exercisable before 29 December 2007.

The exercise in full of the remainder of the share options would, under the present capital structure of the Company, result in the issue of 3,506,000 additional ordinary shares of \$0.01 at a total consideration of approximately \$5,647,000.

11 RESERVES

	Share premium \$'000	Capital redemption reserve \$'000	Special reserve \$'000	Exchange reserve \$'000	Goodwill reserve \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2002	1,189,721	478	—	790	(30,000)	(952,754)	208,235
Exchange differences	—	—	—	338	—	—	338
Loss for the period	—	—	—	—	—	(50,888)	(50,888)
At 30 June 2002	1,189,721	478	—	1,128	(30,000)	(1,003,642)	157,685
At 1 January 2003	1,189,721	478	808,822	1,175	—	(1,072,189)	928,007
Exchange differences	—	—	—	349	—	—	349
Loss for the period	—	—	—	—	—	(3,674)	(3,674)
At 30 June 2003	1,189,721	478	808,822	1,524	—	(1,075,863)	924,682

No dividends were declared or paid during the current or the prior period.

12 CONTINGENT LIABILITIES

One of the telecommunications content providers of a subsidiary issued a letter through its solicitors in March 2002 claiming damages of US\$1,500,000 from that subsidiary in relation to rate changes applied by that subsidiary for services delivered by the content provider. The claimant also disputes traffic volumes generated in the past and claims to have been underpaid by at least US\$2,736,125.

Management has studied the allegations raised and sought legal advice on the subsidiary's legal rights and liabilities. Upon advice, the subsidiary has sought to refute most of the allegations and has raised a counterclaim of US\$6,214,708 for the return of sums advanced on account to the content provider due to uncollectibles, discrepancies arising on reconciliation of traffic volumes and other related items. In the meantime, no provision has been made in the financial statements in connection with these claims.

13 MATERIAL RELATED PARTY TRANSACTIONS

During the period, the Group earned interest income amounting to \$28,000 (2002: \$91,000) from an associate.

During the period, the Group incurred rental expenses payable to a company controlled by a substantial shareholder of the Company in the amount of \$1,252,000 (2002: \$1,422,000). The terms of the tenancy agreement are on an arm's length basis.

14 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the board of directors on 5 September 2003.

INDEPENDENT REVIEW REPORT



To the Board of Directors of e-New Media Company Limited

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 1 to 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

KPMG

Certified Public Accountants

Hong Kong, 5 September 2003

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND OVERVIEW

The Group recorded turnover of HK\$54,519,000 for the first half of the year and reported an after-tax loss of HK\$3,674,000. The reported loss represents a 92.8% decrease when compared with the trading result of the corresponding period in 2002.

The first half of 2003 witnessed events that significantly affected the already sluggish recovery of the global economy. The Iraq War, the outbreak of the Severe Acute Respiratory Syndrome ("SARS") and the weakening of the US dollar all made their marks. Turnover of the Group received much impact and resulted in a 25% reduction. Faced with these challenges, the Group has implemented and continues to exercise stringent cost controls, re-structured the core business divisions and is able to present, under such adverse trading environment, an improved trading result.

As for the second half of the year, the Group is conservatively optimistic and will remain prudent in the preservation of liquidity and maintaining stringency in cost control. The Group will continue its efforts to identify value-added investments with the objective to further enhance the Group's performance of existing operations.

CLUB MANAGEMENT

Shanghai

During the "SARS" period, the Club experienced a significant drop in its sales and cost reduction programs (such as the no pay leave policy) were immediately put in place in order to contain costs to a more acceptable level. When the situation improved, the business started to recover steadily in July, with occupancy rate rebounding by 80% towards the end of August and continuing to improve.

In June this year, the Club signed a sub-contracting agreement with Shanghai Landis Hospitality Management Co. Ltd. ("SLHM"), a hotel management company based in Shanghai. With funding provided by SLHM, the clubhouse will undertake a major renovation to convert into a 4-Star hotel by next year. With the continuation of economic growth and the high demand of hospitality service in Shanghai, management anticipate that this sub-contracting business plan would be a turning point in the Club's operation.

Hong Kong

As with its sister club in Shanghai, the Club in Hong Kong saw its business performance severely affected by SARS, especially in the months of March and April. Revenue for the Club declined both from operations and subscription fee collection. Likewise, various cost reduction measures were immediately put in place to reduce costs. A slight improvement was witnessed in June when Food & Beverage sales and room sales climbed back up to a more stable level. Different sales promotion and marketing activities are being introduced to enhance trading in an intensely competitive market and the bottom line figures for the reporting period improved slightly when compared to that of the corresponding period in 2002.

The relaxation on travel restrictions for tourism and the recent announcement that individual travellers would be allowed across the border will definitely benefit the Club's business and the Club is looking forward to a more rewarding trading environment and healthy improvement in its business activities in the second half of 2003.

BIO - MEDICAL

Cardima Inc. (“Cardima”)

Listed on NASDAQ and based in California, Cardima is developing an innovative micro-catheter, Revelation Tx microcatheter system, for treatment of atrial fibrillation (irregular heartbeat), which afflicts an estimated 4.5 million individuals worldwide.

In a meeting in May 2003, the US Food and Drug Administration’s (“US FDA”) Circulatory System Device Panel (“Panel”) expressed the view that the data submitted by Cardima for the Pre-Market Approval (“PMA”) application of Revelation Tx microcatheter system was not sufficient to support the approval. The Panel provided the US FDA and Cardima with several suggestions on how to possibly re-examine the existing data or how to collect more data on existing patients.

Cardima intends to re-submit its application for PMA with analyses and fresh data which its senior management feel will strengthen its position and increase the likelihood of a favourable outcome.

Genovate Biotechnology Company Limited (“Genovate”)

Genovate (founded in Taiwan in 1993 by Genelabs Technologies, Inc. of the USA) is a fully integrated pharmaceutical company, encompassing in its operation: new drug development and new formulation capability; clinical trials for local and international pharmaceutical companies; drug manufacturing; drug marketing and distribution in Taiwan.

Genovate has in the pipeline a range of new drug products. The newly developed drug “Prestara”, co-developed by Genelabs Technologies and Genovate for treatment of lupus, received an approvable letter from the US FDA in August 2002. Subject to a successful confirmatory clinical trial, the market launch of the product is expected to be in 2004. “Genetaxyl” is an improved version of Paclitaxel developed by Genovate for treatment of breast cancer. The drug has received approval licence in Taiwan in January 2003 and is ready for launch in the Taiwan market. In addition, two drug products have completed clinical studies in Taiwan, they include Propiverine (“PPV”), a generic drug for urinary incontinence and Glipizide-Slow Release (“GSR”), a new formulation generic drug for treatment of diabetes. Both products are expected to obtain approval licences in Taiwan in 2003.

TELECOMMUNICATIONS INCLUDING INTERNATIONAL PREMIUM RATE SERVICES (“IPRS”)

Excess capacity and difficult trading conditions remain the norm in this industry worldwide. Our geographical spread has not buffered us from this business reality.

Management has largely completed an extensive restructuring and cost-savings exercise while preserving core business areas mentioned in the 2002 Annual Report. Management is evaluating the business solutions available to increase the business volumes and continues to source new ventures in the market.

The Group is beginning to see results from its efforts in collecting outstanding and overdue payments from final transit carriers and indeed, a sum of US\$3.3 million (HK\$25,572,000) was collected in July 2003 after lengthy and on-going negotiation. Reflected in the turnover for the reporting period, the amount received represents traffic revenue generated in prior years which was not recognised previously in view of the uncertainty of its collectibility. The Group will continue its efforts in this direction.

OTHER INVESTMENTS

ChinaPay.com Holdings Limited (“ChinaPay”)

During the reporting period, the Group has successfully concluded a purchase agreement, via a wholly owned subsidiary, with ChinaPay. Under the purchase agreement, the Group, via a wholly owned subsidiary, is to acquire 666,667 shares (representing approximately 7% of the enlarged shares capital) of the investee company at a consideration of US\$1,000,000 (HK\$7,780,000).

ChinaPay is involved in the development of an electronic payment system and services in the People's Republic of China (“PRC”) through a 49/51 Joint Venture (ChinaPay e-Payment Service Company Limited) with China UnionPay.

Beijing Smartdot Technologies Company Limited (“Smartdot”)

Smartdot was affected by SARS but managed to generate in the first 6 months of 2003 turnover of about Rmb 6.4M. The result was badly affected particularly during the second quarter of 2003. It is expected that the revenue will pick up in the second half of 2003.

Shanghai ENM Telecom & Technologies Limited (“ENMTT”)

This PRC company, in which the Group owns a 75% interest, was formed on 7 April 2003. ENMTT focuses on wireless telecommunications business in the PRC market. At present, it cooperates with China Mobile Shanghai in marketing and distributing the GPRS PC card in Shanghai. Management anticipate that this company would be a stepping-stone for the Group to extend its core business — value-added telecommunications services in the PRC market.

LIQUIDITY AND FINANCIAL POSITION

The Group had a solid financial position with a cash and deposit holding of HK\$637,508,000. As at 30 June 2003, the Group's total borrowings stood at HK\$63,231,000 (31 December 2002: HK\$63,651,000) with HK\$55,947,000 (31 December 2002: HK\$56,427,000) repayment falling due within one year. The Group's gearing ratio, resulting from a comparison of the Group's total borrowings with total equity, was 6.7% at the interim period end date (31 December 2002: 6.7%). The current ratio at 30 June 2003 was 5.5 times (31 December 2002: 5.4 times).

As at 30 June 2003, the Group's borrowings and bank balances were primarily denominated in Hong Kong dollars and United States dollars and exchange differences were reflected in the interim financial report. All borrowings of the Group are either interest free or on a floating rate basis.

In the reporting period, the Group did not resort to acquiring any financial instruments for hedging purposes.

PLEDGE OF ASSETS

Pledges of the Group's fixed deposits of US\$6,110,000 (31 December 2002: US\$6,110,000) and corporate guarantees were given to bankers to secure short term loans and other general banking facilities to the extent of US\$6,110,000 as at 30 June 2003 (31 December 2002: US\$6,110,000).

EMPLOYEE AND REMUNERATION POLICIES

At the date of this report, the Group employs a total of 214 full time staff with its main workforce stationed in the Group's offices in Hong Kong. The Group's remuneration policies are performance based and are in line with the salary trends in the respective locations. The Group provides employee benefits such as staff insurance schemes, provident and pension funds, discretionary performance bonus, external training support, and a performance based share option scheme.

CONNECTED TRANSACTIONS

The Company has entered into a tenancy agreement with a company controlled by a substantial shareholder, in respect of the letting of certain office units for a term of two years commencing from 1 May 2003 at a monthly rental of HK\$158,000.

AUDIT COMMITTEE

The Group's Audit Committee comprises two independent non-executive directors and continues to exercise its authority to review and supervise the financial reporting process and internal control system of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

Directors who held office at 30 June 2003 had the following interests in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Part XV of the Securities and Futures Ordinance (the "SFO"):

	Ordinary shares of HK\$0.01 each	Percentage of total issued shares
<i>Long position in shares</i>	<i>Corporate interests</i>	
Joseph LEUNG Wing-kong	200,000	0.012

Save as disclosed above, no director, chief executive or any of their associates had any beneficial or non-beneficial interests in the share capital of the Company or any of its associated corporations as defined in the SFO.

SHARE OPTION SCHEME

In an Extraordinary General Meeting of the Company held on 14 June 2002 the shareholders of the Company formally approved the termination of the share option scheme adopted on 30 December 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme"), in compliance with the amended Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the principal terms of the New Scheme was sent to the shareholders of the Company in a circular dated 28 May 2002. All new options shall be granted under the terms and conditions of the New Scheme. No options have yet been granted under the New Scheme.

All outstanding options granted under the Old Scheme shall remain valid and exercisable under the provisions of the granting scheme.

Details of the outstanding share options as at 30 June 2003 were as follows:

	Number of options outstanding at the beginning of the period	Number of options lapsed during the period	Number of options outstanding at the period end	Date granted	Price per share on exercise of options
<i>Granted under the Old Scheme:</i>					
Employees	3,638,000	132,000	3,506,000	11 October 1999 to 18 September 2000	HK\$0.63 to HK\$1.90

Share options under the Old Scheme are exercisable before 29 December 2007.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company or any of their spouses or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

At 30 June 2003, the following parties had registered an interest of 5% or more in the share capital of the Company under Section 336 of the SFO.

	Ordinary shares held	Percentage of total issued shares
Long positions in shares		
Diamond Leaf Limited	162,884,503	9.8
Solution Bridge Limited	408,757,642	24.8
Ms Nina KUNG (<i>Note</i>)	571,642,145	34.6

Note: The interests disclosed under Ms Nina KUNG represent her deemed interests in the shares of the Company by virtue of her interests in Diamond Leaf Limited and Solution Bridge Limited.

Save as disclosed above, there were no other parties who were known to the directors to be the registered holders or have any interest or right to subscribe for 5% or more of the issued share capital of the Company at 30 June 2003.

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

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the six months ended 30 June 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors are aware of any information that would reasonably indicate that the Company is not or was not for any part of the six months ended 30 June 2003 in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

By order of the Board
James C. Ng
Chief Executive Officer

Hong Kong, 5 September 2003