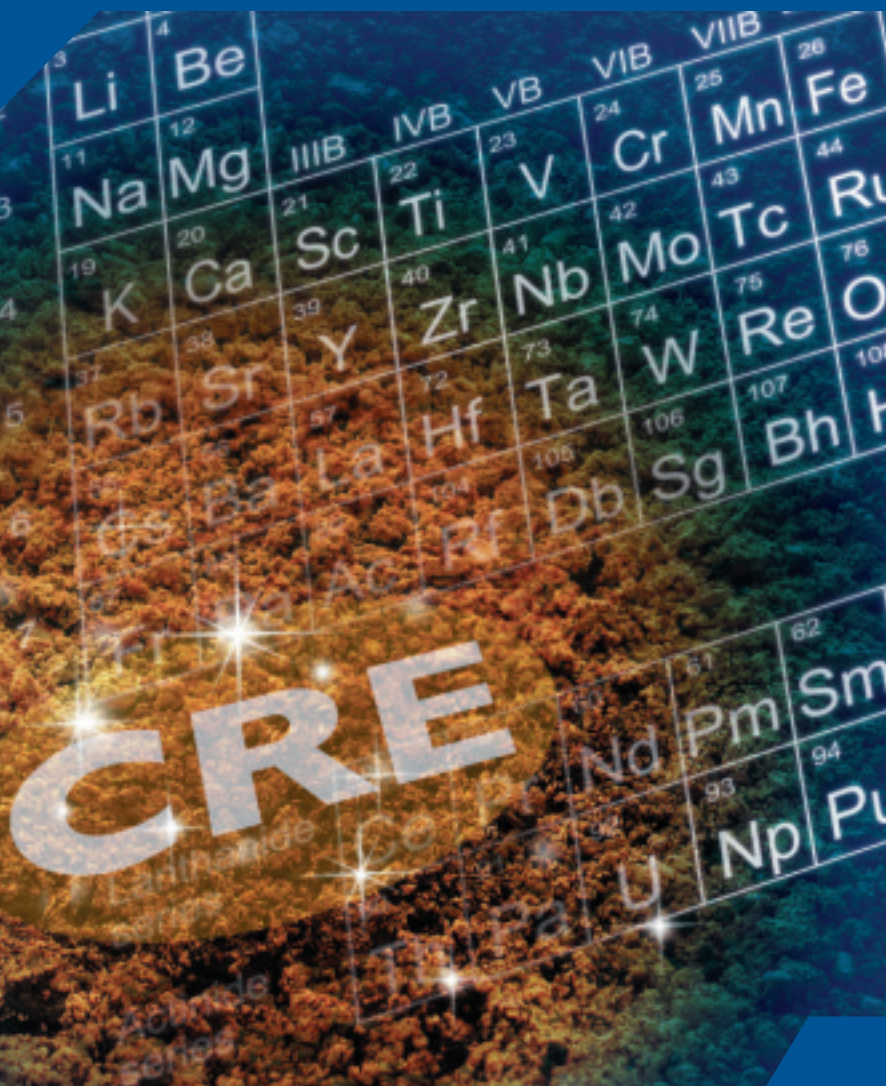




# 中國稀土控股有限公司 China Rare Earth Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



Interim  
Report **2003**

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with the comparative figures for the corresponding period in 2002 as follows:

### **CONDENSED CONSOLIDATED INCOME STATEMENT**

		<b>For the six months ended 30 June</b>	
		<b>2003</b>	2002
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Turnover	(4)	<b>196,549</b>	196,113
Cost of sales		<b>(156,960)</b>	(138,463)
Gross profit		<b>39,589</b>	57,650
Interest income		<b>1,112</b>	3,187
Selling and distribution expenses		<b>(6,028)</b>	(5,988)
Administrative expenses		<b>(10,126)</b>	(10,051)
Profit from operations	(5)	<b>24,547</b>	44,798
Finance costs	(6)	<b>(93)</b>	(3)
Other income, net		<b>547</b>	256
Profit before taxation		<b>25,001</b>	45,051
Taxation	(7)	<b>(2,842)</b>	(6,137)
Profit before minority interests		<b>22,159</b>	38,914
Minority interests		<b>(336)</b>	(996)
Net profit for the period		<b>21,823</b>	37,918
Dividends	(8)	<b>–</b>	16,289
Earnings per share	(9)		
– Basic		<b>2.68 cents</b>	4.66 cents
– Diluted		<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

	Notes	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment and construction-in-progress	(10)	<b>337,605</b>	353,216
Current assets			
Inventories		<b>188,211</b>	187,031
Accounts and other receivables	(11)	<b>93,812</b>	126,809
Prepayments, deposits and other current assets		<b>28,696</b>	28,215
Tax recoverable		<b>687</b>	864
Cash and bank balances		<b>393,903</b>	332,915
		<b>705,309</b>	675,834
Current liabilities			
Accounts payable	(12)	<b>39,011</b>	51,375
Accruals and other payables		<b>17,464</b>	19,566
Amounts due to directors		<b>7,201</b>	4,137
Amounts due to related companies		<b>745</b>	105
Tax payable		<b>2,549</b>	83
		<b>66,970</b>	75,266
Net current assets		<b>638,339</b>	600,568
Total assets less current liabilities		<b>975,944</b>	953,784
Minority interests		<b>(15,696)</b>	(15,359)
		<b>960,248</b>	938,425
Capital and reserves			
Share capital		<b>81,445</b>	81,445
Reserves		<b>878,803</b>	856,980
		<b>960,248</b>	938,425

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>For the six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash inflow from operating activities	<b>61,945</b>	68,578
Net cash (used in)/generated from investing activities	<b>(864)</b>	4,391
Net cash used in financing activities	<b>(93)</b>	(3)
Net increase in cash and cash equivalents	<b>60,988</b>	72,966
Cash and cash equivalents at beginning of the period	<b>332,915</b>	247,936
Effect of changes in exchange rate	<b>-</b>	38
Analysis of the balances of cash and cash equivalents at end of period		
Cash and bank balances	<b>393,903</b>	320,940

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Capital reserve	Statutory reserves	Dividend reserve	Exchange translation reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002								
– as originally stated	81,445	412,485	32,837	26,968	–	3,498	364,495	921,728
– proposed final dividend declared after the balance sheet date	–	–	–	–	16,289	–	(16,289)	–
	<u>81,445</u>	<u>412,485</u>	<u>32,837</u>	<u>26,968</u>	<u>16,289</u>	<u>3,498</u>	<u>348,206</u>	<u>921,728</u>
– as restated	81,445	412,485	32,837	26,968	16,289	3,498	348,206	921,728
Net profit for the period	–	–	–	–	–	–	37,918	37,918
Appropriations to statutory reserves	–	–	–	8,155	–	–	(8,155)	–
Dividends set aside	–	–	–	–	8,145	–	(8,145)	–
Final dividends paid for 2001	–	–	–	–	(16,289)	–	–	(16,289)
Translation of PRC subsidiaries' financial statements	–	–	–	–	–	38	–	38
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>38</u>	<u>–</u>	<u>38</u>
At 30 June 2002 and 1 July 2002	81,445	412,485	32,837	35,123	8,145	3,536	369,824	943,395
Net profit for the period	–	–	–	–	–	–	3,114	3,114
Appropriations to statutory reserves	–	–	–	6,561	–	–	(6,561)	–
Dividends set aside	–	–	–	–	8,144	–	(8,144)	–
Interim dividends paid for 2002	–	–	–	–	(8,145)	–	–	(8,145)
Translation of PRC subsidiaries' financial statements	–	–	–	–	–	61	–	61
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>61</u>	<u>–</u>	<u>61</u>
At 31 December 2002 and 1 January 2003	81,445	412,485	32,837	41,684	8,144	3,597	358,233	938,425
Net profit for the period	–	–	–	–	–	–	21,823	21,823
Appropriations to statutory reserves	–	–	–	132	–	–	(132)	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>132</u>	<u>–</u>	<u>–</u>	<u>(132)</u>	<u>–</u>
At 30 June 2003	<u>81,445</u>	<u>412,485</u>	<u>32,837</u>	<u>41,816</u>	<u>8,144</u>	<u>3,597</u>	<u>379,924</u>	<u>960,248</u>

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

### **1. Basis of preparation**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with 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/adoption of statements of standard accounting practice**

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

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

In the current period, the Group has adopted, for the first time, the revised SSAP 12 "Income taxes" ("SSAP 12 (Revised)"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision, if any, was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.



### 3. Segment information

Segment information for the six months ended 30 June 2003 and 2002 is as follows:

(a) *Business segments*

	Rare earth		Refractory		Total	
			For the six months ended 30 June			
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
TURNOVER	<u>97,365</u>	<u>71,786</u>	<u>99,184</u>	<u>124,327</u>	<u>196,549</u>	<u>196,113</u>
RESULTS						
Segment results	<u>9,818</u>	<u>15,252</u>	<u>19,419</u>	<u>33,161</u>	<u>29,237</u>	48,413
Unallocated corporate expenses					(5,802)	(6,802)
Interest income					<u>1,112</u>	<u>3,187</u>
Profit from operations					<u>24,547</u>	<u>44,798</u>

Rare Earth: The manufacture and sale of rare earth products including fluorescent products

Refractory: The manufacture and sale of refractory products

(b) *Geographical segments*

	Turnover by geographical market For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
The People's Republic of China ("the PRC")	112,838	126,545
Japan	49,277	39,850
The United States of America	2,430	15,071
Others	<u>32,004</u>	<u>14,647</u>
	<u>196,549</u>	<u>196,113</u>

Over 90% of segment assets of the Group are located in the PRC.

#### 4. Turnover

##### For the six months ended 30 June

2003	2002
HK\$'000	HK\$'000

Sales of rare earth products, refractory products  
and fluorescent products

**196,549**

196,113

#### 5. Profit from operations

During the period, profit from operations has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$17,586,000 (2002: HK\$13,019,000).

#### 6. Finance costs

During the period, interest on discounted bills of approximately HK\$93,000 (2002: interest on borrowings of approximately HK\$3,000) was charged.

#### 7. Taxation

##### For the six months ended 30 June

2003	2002
HK\$'000	HK\$'000

Enterprise income tax ("EIT")

– The PRC subsidiaries

**2,842**

6,137

Hong Kong Profits Tax has not been provided for in the financial statements as the Group did not derive any assessable profits in Hong Kong.

EIT has been provided at the prevailing rates on the estimated assessable profits applicable to each PRC subsidiary.

Pursuant to the relevant tax laws in the PRC, subsidiaries in the PRC are entitled to full exemption from EIT for two years starting from their first profit-making year after offsetting all losses brought forward, followed by a 50% reduction for the next three years thereafter.

During the period, two PRC subsidiaries are entitled to a 50% reduction of EIT.

The Group did not have any significant unprovided deferred taxation for the period or at 30 June 2003.



## 8. Dividends

During the period, no dividend was declared and paid. During the six months ended 30 June 2002, a final dividend for 2001 of HK\$0.02 per share amounted to approximately HK\$16,289,000 was declared and paid. Subsequent to 30 June 2003, a final dividend for 2002 of HK\$0.01 per share amounted to approximately HK\$8,144,000 was declared and paid.

The Board of Directors does not recommend the declaration of an interim dividend for the six months ended 30 June 2003. Subsequent to 30 June 2002, the Board of Directors had resolved to declare an interim dividend for the six months ended 30 June 2002 of HK\$0.01 per share amounted to approximately HK\$8,145,000.

## 9. Earnings per share

The calculation of the basic earnings per share is based on the Group's net profit for the period of approximately HK\$21,823,000 (2002: HK\$37,918,000) and the weighted average number of ordinary shares of 814,453,059 (2002: 814,453,059) in issue during the period.

There were no diluted earnings per share shown for the six months ended 30 June 2003 as there was no dilutive potential ordinary share as at 30 June 2003.

## 10. Property, plant and equipment and construction-in-progress

During the period, the Group spent approximately HK\$1,975,000 (2002: HK\$95,631,000) on additions to property, plant and equipment and construction-in-progress.

## 11. Accounts and other receivables

At 30 June 2003, accounts and other receivables comprised:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Accounts receivable	75,638	109,036
Other receivables	25,596	26,302
	<u>101,234</u>	<u>135,338</u>
Less: Provision for bad and doubtful debts	(7,422)	(8,529)
	<u>93,812</u>	<u>126,809</u>

**11. Accounts and other receivables (Continued)**

An ageing analysis of accounts receivable is as follows:

	<b>30 June 2003</b> <b>HK\$'000</b>	31 December 2002 <b>HK\$'000</b>
Current to less than 6 months	<b>51,318</b>	98,791
6 months to less than 1 year	<b>16,382</b>	2,241
1 to less than 2 years	<b>2,481</b>	2,388
Over 2 years	<b>5,457</b>	5,616
	<hr/>	<hr/>
	<b>75,638</b>	109,036
	<hr/>	<hr/>

**12. Accounts payable**

An ageing analysis of accounts payable is as follows:

	<b>30 June 2003</b> <b>HK\$'000</b>	31 December 2002 <b>HK\$'000</b>
Current to less than 6 months	<b>32,387</b>	47,138
6 months to less than 1 year	<b>6,008</b>	2,602
1 to less than 2 years	<b>485</b>	1,486
Over 2 years	<b>131</b>	149
	<hr/>	<hr/>
	<b>39,011</b>	51,375
	<hr/>	<hr/>

**13. Commitments**

At 30 June 2003, the Group had capital commitments authorized and contracted for in respect of acquisition of equipment and machinery and construction of buildings, so far as not provided for in the financial statements, amounted to approximately HK\$4,090,000 (31 December 2002: HK\$6,145,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial results**

For the six months ended 30 June 2003, the Group recorded a turnover of HK\$196,549,000, compared to HK\$196,113,000 in the corresponding period last year. During the period, turnover for rare earth products (including fluorescent materials) and refractory products was comparable, at HK\$97,365,000 and HK\$99,184,000 respectively. Nevertheless, because of the low price levels for rare earth products, the refractory materials business remained the major profit contributor, accounting for 66% of the overall results. The gross profit margin during the period fell from 29% in the corresponding period last year to 20% this year, while net profit margin was 11%. Profit attributable to shareholders amounted to HK\$21,823,000. Basic earnings per share were HK2.68 cents.

### **Interim dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003. It intends to defer the distribution until the final results announcement.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Business review**

#### *Rare earth business*

In the first half of 2003, the global economy continued to be plagued by the economic downturn. As such, market demand did not reach expected growth. At the same time, restructurings and reforms in the PRC's rare earth industry were still on. As competition within the rare earth industry in the PRC market intensified, rare earth products prices still lingered at low level. The rare earth industry is experiencing resource restructuring and undergoing an evolutionary process to weed out underperforming players. However, riding the continuing advancement and application of rare earth technology, market demand for the downstream products of rare earth oxide will gradually accelerate.

During the period under review, capitalizing on its competitive edge in capital, its facilities, techniques and production skills, the Group has modernized the technology of some of its production lines to cater for ever-changing market demand, enhanced the structure for existing products and speeded up new product development. In the first half of 2003, though the market did not have a significant rebound, the Group sold approximately 1,800 tonnes of rare earth products, generally maintaining sales volume at a comparable level to the corresponding period last year. However, as sale of certain relatively high priced products such as mixture of Yttrium and Europium was greater than that in the corresponding period last year, the turnover of the rare earth business increased. The Group is committed to expanding the overseas market and leading to vigorous growth in export sales. During the period, export sales reached 62% of turnover and surpassed the previous year's entire share of 35%. Product prices, following the downward adjustment last year, remained stable in the first half of 2003. With the Group's efforts to strengthen its internal management, tighten its budget controls and reduce costs of production, the gross profit margin for the rare earth business in the first half of 2003 rose to 12%, compared to the previous year's margin of approximately 5%. The provision made in 2002 for the reduction in inventory value exerted a relatively greater impact on the changes in the gross profit.

After more than half a year's operation of the production lines for the rare earth trichromatic phosphor, the quality of these products is gradually improving. For the first half of 2003, sales of fluorescent materials recorded at approximately 52,000 kilograms with a gross profit margin achieved of over 20%. The development of overseas markets has also been progressing while trial products have passed related customers' quality tests. With its sophisticated technology and modern production skills, the production and sale of fluorescent materials will gradually be lifted.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Business review** *(Continued)*

#### *Refractory materials business*

Refractory products are widely employed in the metallurgy, petroleum, chemical, construction and power industries. As the rare earth business has not significantly rebounded, the refractory materials business became the main source of profit for the Group. However, the sluggish worldwide economy and the spread of the Severe Acute Respiratory Syndrome (SARS) virus in April and May in particular, posed a negative impact on the refractory materials business. In May, transportations of raw materials and products as well as business meetings were severely affected. As most customers' production processes are labour-intensive, operations were basically suspended. As a result, production of refractory materials during the month was approximately 1,900 tonnes, which was 4,400 tonnes less than the 6,300 tonnes produced in the corresponding month last year, while sales of refractory materials were 1,440 tonnes, 5,060 tonnes less than the 6,500 tonnes sold in the corresponding month last year. In the first half of 2003, the Group's refractory materials business recorded total sales of about 20,000 tonnes, which was 6,000 tonnes less than the corresponding period last year. The SARS epidemic was the main factor behind the fall.

During the period, leveraging its competitive edge of long-term cooperation with its international partner in technological advancement and the continuous modernization of its skills to improve the quality and lift its production levels, while at the same time enriching the product mix and expanding its overseas market, export levels for the Group's refractory products reached 6,800 tonnes, with sales contributions from overseas market reaching 32%, surpassing last year's entire share of 18%. With regard to local sales, the Group's sales strategies are to raise the sales proportion of medium to high-end refractory products and offer high-quality after-sales services etc., which will effectively reduce the negative impact brought about by the intense competitions of low-end and under-priced products. The Group will therefore be able to successively maintain its market share among the steel-metallurgy corporations within the PRC. Additionally, while the production yield rate increased, the Group managed to maintain stable returns despite the reduction in total sales volume. In the first half of 2003, the gross profit margin for refractory materials business dropped from 32% in the corresponding period last year to 27% due to the reduction in overall production levels and therefore leading to an increase in average production costs.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Prospects**

The development of a business is unavoidably susceptible to the unfavourable business environment. In the first half of the year, the Group experienced the most difficult challenges since its establishment. Owing to the dedication of the management and every staff member, the Group has overcome these challenges. This fully reflects the strategic capabilities of the Group in placing its firm foothold on this competitive global market, as it lays solid foundations for the Group's sustainable development into the future.

#### *Rare earth business*

Only by continuously enriching its product varieties can the Group consolidate its foothold in the market. Exploring new rare earth downstream products is the trend to maintain the sustainable growth of the rare earth business. The Group has been unrelenting in enhancing its research and development capabilities. It constantly provides training programs for research and development staff members, cooperates with large-scale research and development institutions and universities to jointly develop rare earth applied products and keeps abreast of the latest technological development in the rare earth world. In addition, the Group interacts closely with customers to stay alert to their needs and the development in the market to adjust its services with developments in the international market.

The Group will leverage its competitive edge in the separation of rare earth products, continue to strengthen its exploration and development of value-added products, enhance sales and reduce production costs, to achieve higher profits by turning 50% of the rare earth oxide produced by the Group to rare earth value-added downstream products.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Prospects** *(Continued)*

#### *Refractory business*

Following the technological advancement and development of industries such as the metallurgy, construction, petrochemical industries, etc., demand for medium to high-end refractory products is increasing. Therefore, the Group plans to make use of its core competencies in equipment and technology to further enhance its existing production facilities, to continue increasing the proportion of medium to high-end refractory products produced as well as to enrich its new product and to substantiate the market competitiveness of the Group's refractory products. Additionally, the Group will strengthen its cooperation with raw materials suppliers and continue to expand its overseas markets, in the hope of raising the Group's market share while improving product quality and developing new products through advanced overseas technology, so as to maintain sustainable growth in its export sales.

### **Liquidity and financial resources**

As at 30 June 2003, the Group had cash and bank balances of approximately HK\$393,903,000 with nil long-term liability. Net current assets increased to HK\$638,339,000 from HK\$600,568,000 as at the end of last year. Total liabilities to total assets ratio has been reduced to 6%.



## SHARE OPTION SCHEME

The shareholders of the Company have adopted a Share Option Scheme under which the directors may, at their discretion, invite any full time employee or executive director of the Company or its subsidiaries to take up options to subscribe for shares in the Company.

On 23 January 2003, certain directors and employees have been granted options under the Share Option Scheme.

The movement of the options granted under the Share Option Scheme during the period were as follows:

Grantee	Date of grant	Exercise price	Number of options		
			Granted during the period	Lapsed during the period	Held at 30 June 2003
Directors					
Fan Yajun	23 January 2003	HK\$1.10	5,000,000	–	5,000,000
To Siu Mui	23 January 2003	HK\$1.10	1,500,000	–	1,500,000
Ying Yuming	23 January 2003	HK\$1.10	5,000,000	5,000,000	–
Employees					
In aggregate	23 January 2003	HK\$1.10	1,500,000	–	1,500,000

The closing price of the Company's shares immediately before the date on which the options were granted was HK\$1.10.

The options granted is exercisable between 27 January 2003 to 26 January 2013, provided that 50% of the options granted shall not be exercised prior to 27 January 2004.

The options granted are not recognized in the financial statements until they are exercised. The Board considers that it is not appropriate to disclose the value of options granted during the year as a number of factors crucial for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and misleading to the shareholders.

## **DIRECTORS' INTERESTS AND SHORT POSITIONS**

As at 30 June 2003, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### **1. Shares of the Company**

<b>Director</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>% to the issued share capital of the Company</b>
Jiang Quanlong	Interest of spouse <i>(Note)</i>	420,050,000	51.57%
Qian Yuanying	Beneficiary of a trust <i>(Note)</i>	420,050,000	51.57%
Huang Chunhua	Beneficial owner	2,868,000	0.35%

*Note:* These shares are held through YY Holdings Limited, the entire issued share capital of which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her children.

**DIRECTORS' INTERESTS AND SHORT POSITIONS** *(Continued)***2. Interests in associated corporations***(a) Xinwei Rare Earth Group (Hong Kong) Limited*

<b>Director</b>	<b>Capacity</b>	<b>Number of issued shares held</b>
Jiang Quanlong	Beneficial owner	7,000,000 non-voting deferred shares
Qian Yuanying	Beneficial owner	3,000,000 non-voting deferred shares

*(b) Yixing Xinwei Leeshing Rare Earth Company Limited*

<b>Director</b>	<b>Capacity</b>	<b>Equity interests</b>
Jiang Quanlong	Interest of a controlled corporation <i>(Note)</i>	90%

*(c) YY Holdings Limited*

<b>Director</b>	<b>Capacity</b>	<b>Number of issued shares held</b>
Qian Yuanying	Beneficiary of a trust	1 ordinary share
Qian Yuanying	Beneficiary of a trust	25,000 preference shares

*Note:* The equity interest is held by Xinwei Group Limited, a domestic enterprise 90% owned by Mr. Jiang Quanlong, with remaining 10% owned by his son. Mr. Jiang is also the legal representative of the enterprise.

**DIRECTORS' INTERESTS AND SHORT POSITIONS** *(Continued)***3. Underlying shares of the Company**

<b>Director</b>	<b>Capacity</b>	<b>Outstanding number of shares issuable under options granted</b>	<b>% to the issued share capital of the Company</b>
Fan Yajun	Beneficiary owner	5,000,000	0.61%
To Siu Mui	Beneficiary owner	1,500,000	0.18%

Details of the options granted to the above directors were disclosed in "Share Option Scheme" above.

Save as disclosed above, as at 30 June 2003, none of the directors or the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept under Section 352 of the SFO.

## **SUBSTANTIAL SHAREHOLDERS INTERESTS AND SHORT POSITIONS**

So far as is known to the Board, as at 30 June 2003, the interests and short positions of shareholders, other than the directors or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

1. YY Holdings Limited, the entire issued share capital of which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her children, was holding 420,050,000 shares of the Company, representing approximately 51.57% of the issued share capital of the Company as beneficial owner.
2. J.P. Morgan Chase & Co and its associates were holding 40,492,000 shares of the Company, representing approximately 4.97% of the issued share capital of the Company, of which 30,276,000 shares were held as investment manager and 10,216,000 shares as other.

Save as disclosed above, no other party had notified the Company that he had any interest or short position in the shares or underlying shares of the Company as recorded in the register kept under Section 336 of the SFO as at 30 June 2003.

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

There has been no purchase, sale or redemption of any of the Company's listed securities by the Group during the six months ended 30 June 2003.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2003 which have not been audited.

**CODE OF BEST PRACTICE**

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By order of the Board

**Jiang Quanlong**

*Chairman*

Hong Kong, 26 September 2003