

INTERIM REPORT 2002



MIDAS

Midas International Holdings Limited

(Incorporated in the Cayman Islands with limited liabilities)

RESULTS

The Board of Directors (the "Directors") of Midas International Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2002 together with the comparative figures for the previous period are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

		For the six months ended 30th June,	
	<i>NOTES</i>	2002	2001
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	3	205,526	238,833
Direct costs		(141,307)	(165,225)
Gross profit		64,219	73,608
Other income		5,788	4,904
Selling expenses		(6,348)	(7,239)
Administrative expenses		(48,020)	(53,115)
Impairment loss on property, plant and equipment		—	(1,263)
Profit from operations	4	15,639	16,895
Finance costs		(1,802)	(5,641)
Profit before taxation		13,837	11,254
Taxation	5	(767)	(1,200)
Net profit for the period		13,070	10,054
Dividends	6	10,833	—
Earnings per share	7		
– Basic		2.7 cents	2.8 cents
– Diluted		2.0 cents	2.8 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2002

	NOTES	30th June, 2002 HK\$'000 (unaudited)	31st December, 2001 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	8	143,700	143,700
Property, plant and equipment	8	207,401	219,840
Properties under development	8	197,736	161,596
Contractual reimbursement from related companies		36,400	50,623
Negative goodwill	9	(6,302)	(8,477)
Investments in securities		-	136
		<u>578,935</u>	<u>567,418</u>
Current assets			
Inventories		69,528	33,018
Trade receivables	10	132,660	104,633
Deposits, prepayments and other receivables		12,277	12,291
Taxation recoverable		93	93
Bank balances and cash		120,851	136,255
		<u>335,409</u>	<u>286,290</u>
Current liabilities			
Trade payables	11	90,848	61,371
Accrued charges and other payables		50,351	41,247
Amount due to a related company		-	5,837
Taxation payable		1,688	355
Dividend payable		3,340	294
Borrowings – due within one year	12	47,476	58,259
Amount due to a minority shareholder	13	31,300	-
Obligations under finance leases and hire purchase contracts – due within one year		1,868	1,774
		<u>226,871</u>	<u>169,137</u>
Net current assets		<u>108,538</u>	<u>117,153</u>
Total assets less current liabilities		<u>687,473</u>	<u>684,571</u>

CONDENSED CONSOLIDATED BALANCE SHEET – Continued

AT 30TH JUNE, 2002

	NOTES	30th June, 2002 HK\$'000 (unaudited)	31st December, 2001 HK\$'000 (audited)
Non-current liabilities			
Borrowings – due after one year	12	37,950	17,850
Obligations under finance leases and hire purchase contracts – due after one year		2,446	3,417
Retirement benefit obligation		142	–
Amount due to a minority shareholder	13	17,905	37,618
Deferred taxation		20,443	21,593
		78,886	80,478
MINORITY INTERESTS			
		48,312	46,057
NET ASSETS			
		560,275	558,036
CAPITAL AND RESERVES			
Share capital			
Ordinary shares	14	38,929	36,529
Preference shares	14	4,095	4,215
Share premium	15	377,728	380,008
Other reserves	16	139,523	137,284
SHAREHOLDERS' FUNDS			
		560,275	558,036

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	For the six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Gain on revaluation of investments in securities not recognised in the condensed consolidated income statement	-	56
Net profit for the period	13,070	10,054
Total recognised gains	13,070	10,110

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	For the six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	(2,707)	60,601
Net cash (used in) from investing activities	(22,678)	17,579
Net cash from (used in) financing activities	9,981	(62,922)
Net (decrease) increase in cash and cash equivalents	(15,404)	15,258
Cash and cash equivalents at 1st January	136,255	102,367
Cash and cash equivalents at 30th June	120,851	117,625

Analysis of the balances of cash and cash equivalents

Cash and cash equivalents as previously reported	64,654
Effect of reclassification of:	
– Import loans	29,716
– Short term bank borrowings with less than three months to maturity when raised	23,255
Cash and cash equivalents as restated, represented by bank balances and cash	117,625

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs, which has resulted in the adoption of the following new/revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under separate headings, are classified as operating/investing/financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement in the comparative amounts shown in the cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES – *Continued*

Employee benefits

In the current period, the Group has adopted SSAP 34 “Employee benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the Group’s defined benefit retirement plan. In prior periods, the cost of providing retirement benefits under this plan was determined using a projected benefit valuation method, with actuarial valuations carried out every three years. Actuarial gains and losses and past service cost were spread systematically over the expected remaining working lives of existing employees, irrespective of the date of vesting.

Under SSAP 34, the cost of providing retirement benefits under the Group’s defined benefit retirement plan is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group’s pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the employees participating in the plan. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

As a result of the changes described above, the Group has determined the transitional liability for its defined benefit plan at the date of adoption of SSAP 34 as approximately HK\$1,417,000 more than the liability that would have been recognised at the same date using the previous accounting policy. This amount will be recognised on a straight-line basis over five years. The change in policy has resulted in a decrease in the profit for the six months ended 30th June, 2002 of approximately HK\$142,000.

3. SEGMENT INFORMATION

During the period, the management have reassessed the primary source of the Group's risks and return and redesignated business segments as the Group's primary reporting format and geographical segments as the Group's secondary reporting format.

(a) Business segments

The Group is currently operating in two business segments, namely printing and property investment and development. Segmental information about these businesses is presented below.

Six months ended 30th June, 2002

	Printing <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER	<u>204,180</u>	<u>1,346</u>	<u>205,526</u>
RESULTS			
Segment results	<u>15,820</u>	<u>2,110</u>	17,930
Unallocated corporate income			33
Unallocated corporate expenses			<u>(2,324)</u>
Profit from operations			<u>15,639</u>

Six months ended 30th June, 2001

The Group was solely engaged in printing business during the six months ended 30th June, 2001 and accordingly, no segmental analysis of activity is presented.

3. SEGMENT INFORMATION – *Continued*

(b) *Geographical segments*

Segmental information about geographical markets is presented below.

Six months ended 30th June, 2002

	Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Australia and New Zealand HK\$'000	People's Republic of China (the "PRC"), other than Hong Kong HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER							
Sales of goods	70,122	53,032	47,907	28,934	3,900	285	204,180
Property rental income	-	-	-	-	1,346	-	1,346
	<u>70,122</u>	<u>53,032</u>	<u>47,907</u>	<u>28,934</u>	<u>5,246</u>	<u>285</u>	<u>205,526</u>
R ESULTS							
Segment results	<u>1,691</u>	<u>5,791</u>	<u>3,276</u>	<u>4,948</u>	<u>2,184</u>	<u>40</u>	17,930
Unallocated corporate income							33
Unallocated corporate expenses							<u>(2,324)</u>
Profit from operations							<u>15,639</u>

Six months ended 30th June, 2001

	Hong Kong HK\$'000	North America HK\$'000	Europe HK\$'000	Australia and New Zealand HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER							
Sales of goods	88,003	43,864	54,043	48,577	2,897	1,449	238,833
R ESULTS							
Segment results	<u>4,067</u>	<u>4,784</u>	<u>4,668</u>	<u>4,522</u>	<u>122</u>	<u>177</u>	18,340
Unallocated corporate expenses							<u>(1,445)</u>
Profit from operations							<u>16,895</u>

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	For the six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Depreciation and amortisation	16,904	17,422
Less: Amount capitalised in properties under development	(93)	–
	16,811	17,422
Dividend received from investments in securities	(1)	(8)
Interest earned on bank deposits	(990)	(2,426)

5. TAXATION

	For the six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax	1,800	2,000
PRC income tax	117	–
Deferred taxation	(1,150)	(800)
	767	1,200

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the period.

PRC income tax is calculated at the applicable rates relevant to the PRC subsidiaries.

The Group had no significant unprovided deferred taxation for the period or at the balance sheet date.

6. DIVIDENDS

The 2001 final dividend of HK2 cents per share to ordinary shareholders on the register of members on 27th May, 2002, amounting to approximately HK\$7,787,000, had been paid to the shareholders during the period.

Subject to the Companies Law (Revised) of the Cayman Islands, the holders of Series A and Series B preference shares are entitled to receive dividends semi-annually at 2.5 percent per annum on the issue price of HK\$0.60 per preference share in arrears on a daily basis, which amounted to approximately HK\$3,046,000 for the period (Six months ended 30th June, 2001: Nil).

The directors do not recommend the payment of an interim dividend (six months ended 30th June, 2001: nil) to the ordinary shareholders.

7. EARNINGS PER SHARE

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

	For the six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Net profit for the period	13,070	10,054
Dividend on preference shares	(3,046)	–
Earnings for the purposes of basic earnings per share	10,024	10,054
Effect of dilutive potential ordinary shares:		
– Dividend on convertible preference shares	536	–
Earnings for the purposes of diluted earnings per share	10,560	10,054
	Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	376,162,996	365,283,107
Effect of dilutive potential ordinary shares:		
– Convertible preference shares	157,127,072	–
– Share options	12,689	161,484
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	533,302,757	365,444,591

8. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND PROPERTIES UNDER DEVELOPMENT

Certain investment properties of the Group are held for rental purposes under operating leases and were revalued at 31st December, 2001 on an open market value basis by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers.

At 30th June, 2002, the directors have considered the carrying amount of the Group's investment properties and have estimated that the carrying amount does not differ significantly from that would be determined using fair values at that date. Accordingly, the same valuation as at 31st December, 2001 has been adopted by the directors for those properties and included in the interim financial report.

During the six months ended 30th June, 2002, the Group acquired property, plant and equipment amounting to approximately HK\$5,018,000.

During the six months ended 30th June, 2002, the Group incurred costs of approximately HK\$33,676,000 and capitalised interest of approximately HK\$2,371,000 for construction and development of properties under development.

9. NEGATIVE GOODWILL

During the period, the gross amount of negative goodwill was decreased by approximately HK\$235,000 as a result of adjustments to the carrying amount of the identifiable assets and liabilities of AsianWisdom.Com Limited acquired in December 2001 and an estimate of the probable guaranteed rental income for certain of the Group's investment properties acquired in the above acquisition. These adjustments have not had any effects on the results of the Group for 2001.

In addition, HK\$1,940,000 of the negative goodwill had been released to offset the administrative expenses in the consolidated income statement against the expected losses recognised in respect of an acquired subsidiary.

10. TRADE RECEIVABLES

The Group has a policy of allowing credit periods ranging from 30 days to 120 days to its trade customers. The aged analysis of trade receivables prepared on the basis of sales invoice date is stated as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
0 to 30 days	53,125	34,211
31 to 60 days	31,931	20,910
61 to 90 days	20,564	19,863
91 to 120 days	15,949	18,085
More than 120 days	11,091	11,564
	<u>132,660</u>	<u>104,633</u>

11. TRADE PAYABLES

The aged analysis of trade payables prepared on the basis of supplier invoice date is stated as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
0 to 30 days	36,436	16,710
31 to 60 days	28,637	14,009
61 to 90 days	16,361	10,434
91 to 120 days	7,797	8,217
More than 120 days	1,617	12,001
	<u>90,848</u>	<u>61,371</u>

12. BORROWINGS

During the period, the Group obtained new bank and import loans in the amount of approximately HK\$69,244,000 and made repayment of approximately HK\$59,927,000. The new loans bear interest at market rates and repayable in 1 to 5 years.

13. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount is unsecured and repayable as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Within one year	31,300	–
More than one year but not exceeding two years	3,240	29,849
More than two years but not exceeding five years	14,665	7,769
	<hr/>	<hr/>
Total	49,205	37,618
Less: Amount repayable within one year and shown under current liabilities	(31,300)	–
	<hr/>	<hr/>
	17,905	37,618
	<hr/>	<hr/>
Analysed as:		
Interest bearing from 0.8 percent to 1 percent per month	40,724	31,399
Interest-free	8,481	6,219
	<hr/>	<hr/>
	49,205	37,618
	<hr/>	<hr/>

14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
– balance at 1st January, 2001, 30th June, 2001, 31st December, 2001 and 30th June, 2002	1,000,000,000	100,000
Preference shares of HK\$0.01 each		
Series A preference shares		
– balance at 1st January, 2001 and 30th June, 2001	–	–
– increased during the period and balance at 31st December, 2001 and 30th June, 2002	1,000,000,000	10,000
Series B preference shares		
– balance at 1st January, 2001 and 30th June, 2001	–	–
– increased during the period and balance at 31st December, 2001 and 30th June, 2002	1,000,000,000	10,000
	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
– balance at 1st January, 2001	364,660,068	36,466
– issue of shares on exercise of share options	630,000	63
	<u>365,290,068</u>	<u>36,529</u>
– balance at 30th June, 2001 and 31st December, 2001	365,290,068	36,529
– conversion from Series A preference shares during the period	24,000,000	2,400
	<u>389,290,068</u>	<u>38,929</u>
Preference shares of HK\$0.01 each		
Series A preference shares		
– balance at 1st January, 2001 and 30th June, 2001	–	–
– issue of shares during the period and balance at 31st December, 2001	84,000,000	840
– conversion to ordinary shares during the period	(12,000,000)	(120)
	<u>72,000,000</u>	<u>720</u>
Series B preference shares		
– balance at 1st January, 2001 and 30th June, 2001	–	–
– issue of shares during the period and balance at 31st December, 2001 and 30th June, 2002	337,500,000	3,375
	<u>409,500,000</u>	<u>4,095</u>

14. SHARE CAPITAL – *Continued*

During the period, the holder of Series A preference shares exercised the conversion right of 12,000,000 Series A preference shares of HK\$0.01 each, which were originally issued at the issue price of HK\$0.60 per preference share, resulting in the issuance of 24,000,000 new ordinary shares in the Company of HK\$0.10 each. The ordinary shares issued rank *pari passu* in all respects with the then existing issued ordinary shares of the Company.

15. SHARE PREMIUM

	Ordinary shares <i>HK\$'000</i>	Preference shares <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	131,241	–	131,241
Premium arising on issue of shares	82	–	82
	<hr/>	<hr/>	<hr/>
At 30th June, 2001	131,323	–	131,323
Premium arising on issue of shares	–	248,685	248,685
	<hr/>	<hr/>	<hr/>
At 31st December, 2001	131,323	248,685	380,008
Upon conversion of preference shares to ordinary shares	4,800	(7,080)	(2,280)
	<hr/>	<hr/>	<hr/>
At 30th June, 2002	<u>136,123</u>	<u>241,605</u>	<u>377,728</u>

16. OTHER RESERVES

	Merger reserve	Investments revaluation		Translation reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>Goodwill HK\$'000</i>	<i>reserve HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2001	24,000	(33,216)	282	239	118,510	109,815
Revaluation increase in the period	–	–	56	–	–	56
Net profit for the period	–	–	–	–	10,054	10,054
	<u>24,000</u>	<u>(33,216)</u>	<u>282</u>	<u>239</u>	<u>128,564</u>	<u>119,925</u>
At 30th June, 2001	24,000	(33,216)	338	239	128,564	119,925
Realised on disposal of investments in securities	–	–	(210)	–	–	(210)
Revaluation decrease in the period	–	–	(130)	–	–	(130)
Net profit for the period	–	–	–	–	17,993	17,993
Dividend	–	–	–	–	(294)	(294)
	<u>24,000</u>	<u>(33,216)</u>	<u>338</u>	<u>239</u>	<u>146,263</u>	<u>137,284</u>
At 31st December, 2001	24,000	(33,216)	(2)	239	146,263	137,284
Realised on disposal of investments in securities	–	–	2	–	–	2
Net profit for the period	–	–	–	–	13,070	13,070
Dividends	–	–	–	–	(10,833)	(10,833)
	<u>24,000</u>	<u>(33,216)</u>	<u>–</u>	<u>239</u>	<u>148,500</u>	<u>139,523</u>

17. CAPITAL COMMITMENTS

At 30th June, 2002, the Group had commitments of approximately HK\$26,574,000 (31st December, 2001: HK\$47,617,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment and the construction of properties under development. However, approximately HK\$12,538,000 (31st December, 2001: HK\$22,391,000) of this amount will be reimbursed by certain related companies as incurred pursuant to an agreement.

18. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following net book values have been pledged to secure borrowings granted to the Group:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Leasehold land and buildings	31,288	17,086
Trade receivables	3,713	85,708
Plant and machinery	6,918	7,366
Properties under development	59,206	–
	<u>101,125</u>	<u>110,160</u>

19. CONNECTED AND RELATED PARTIES TRANSACTIONS

In addition to those disclosed in notes 13 and 17, the Group entered into the following transactions with connected and related parties during the period:

- (a) Guaranteed rental income amounting to approximately HK\$1,940,000 (Six months ended 30th June, 2001: Nil) was received from Chuang's China Commercial Limited ("CCC") and Chuang's China Investments Limited ("Chuang's China") pursuant to an agreement entered into in 2001. Chuang's China is a substantial shareholder of the Company in which Mr. CHAN Sheung Chiu, Ms. LI Mee Sum, Ann and Mr. LEE Sai Wai are also directors. CCC is a wholly owned subsidiary of Chuang's China.
- (b) Property rental income amounting to approximately HK\$534,000 (Six months ended 30th June, 2001: Nil) was received from Yuen Sang Hardware Co. (1988) Limited, a wholly owned subsidiary of Chuang's China.
- (c) Interest amounting to approximately HK\$2,261,000 was charged on amount due to a minority shareholder (Six months ended 30th June, 2001: Nil).

BUSINESS REVIEW AND PROSPECTS

Highlights For The Six-Month Period

Printing business in both home and overseas markets was still affected by the prolonged economic slowdown. As a result, for the first half-year, the Group recorded an unaudited consolidated turnover of HK\$205,526,000, representing a decrease of 14% as compared with the same period of last year's turnover of HK\$238,833,000.

Despite the decrease in turnover, the Group was able to achieve an increase in net profit from HK\$10,054,000 to HK\$13,070,000, representing an increase of 30% as compared with the same period of last year. Such increase in net profit during the period was attributable to (a) an increase in gross profit margin from 30.8% to 31.2% as a result of our cost control measures on key processes like procurement and logistics; (b) the reduction in selling expenses by 12% and administration expenses by 10%; (c) the drop in interest expenses by 68% due to a series of loan re-financing scheme; and (d) contribution from rental income of our property investment.

Business Review

Our businesses are divided into two lines: printing business and property investment and development. Our printing business focuses on three major sectors: books, packaging and commercial printings. The Books Printing is the Group's exporting arm serving clients in the United States (the "U.S."), Europe, Australia and New Zealand; the Packaging Printing is providing services to manufacturers in the PRC and the Commercial Printing is providing quick turnaround services to local clients. The Group's property investment provides stable source of rental income.

(a) *Printing Division*

(i) Packaging Printing

During the reporting period, the Packaging Printing achieved an increase in turnover. With the corresponding increase in trade activities upon the PRC joining the WTO, the packaging printing business of the Group has tremendous room for expansion and growth. The strategy to explore new market for paper products in the PRC like paper bag and gift box was proven to be successful. The division had displayed some samples of paper products made by the factory at the trade show of Guangdong (Dongguan) International Gifts & Stationery Exhibition 2002 in April of this year and received positive feedback from visitors. In view of the positive prospects in the PRC and cost advantage of our production base in the PRC, the Group will research on marketable design for paper bag and gift box to promote this business to buyers in overseas and the PRC.

As more and more overseas manufacturers moving their production line to the PRC, their quality requirement on dummy is as high as the quality of product, especially for packaging printing. Therefore, the Group will invest on advanced technologies to improve the design and making of packaging box which are economy for making small quantity with high quality as value-added services to clients. The division has planned to install additional machineries, including full-size printing press and will continue to expand and strengthen its client base.

BUSINESS REVIEW AND PROSPECTS – *Continued*

Business Review – *Continued*

(a) *Printing Division – Continued*

(ii) Commercial Printing

The business environment in the home market is tougher than last year due to climbing unemployment rate and persistent deflation. The Commercial Printing faced great pressure on pricing and recorded significant decrease in turnover for the first six-month of this year. To make situation worse, some buyers are looking for low cost production in the PRC to meet their tight budget and are willing to sacrifice their demand for quick turnaround. In view of today's economic situation, the business for financial printing also remains uncertain. The division will look out creatively for new market and new client. In April of this year, the division participated in the trade show of Tokyo Book Fair and publicised the name of Midas in Japan. The Group will review the operational structure of the Commercial Printing with a view to enhance our competitiveness and to increase our product range.

(iii) Books Printing

Influenced by the slow pace of global economic recovery, the Books Printing recorded a decrease in turnover as compared with the same period of last year. It was mainly attributable to slowdown of consumer spending after the incident of 9 11 in the U.S., which resulted in holding back of printing orders in the first six months of this year. However, turnover began to pick up significantly in the third quarter.

The Books Printing participated in the trade show of Book Expo America in New York in May of this year and the response was encouraging. The division will carry out the Group's proactive strategy of developing new client and will participate in the coming Frankfurt Book Fair in October of this year. Since installation of the first CTP system in year 2000, the Books Printing has recorded a sharp demand from overseas clients and the skills of technical people has become more sophisticated. This year the Group installed the second CTP system in Boluo Yuanzhou Plant and is now installing the third system, which will be in full operation at year-end. In addition, the Group is planning to build new premises at Boluo Yuanzhou Plant to expand its capacity on hand-work for novelty books and will strengthen the ability in materials sourcing to support this development.

BUSINESS REVIEW AND PROSPECTS – *Continued*

Business Review – *Continued*

(b) Property Division

The properties acquired in last year started to contribute stable rental income to the Group in the first half-year. The Group holds the entire interests in Lambda Building, Yuen Sang Building and three blocks of residential units of Chuang's Garden in Huiyang, the PRC and 51% interests in a commercial podium and basement of Chengdu Chuang's Centre in Sichuan, the PRC. During the period under review, the Group further leased out 40,651 sq. ft. of Yuen Sang Building, thereby improving the occupancy rate of Yuen Sang Building and Lambda Building to about 80%. Furthermore, the Group is holding discussions with prospective tenants on the leasing of the residential blocks of Chuang's Garden.

As regards Chengdu Chuang's Centre, level 1 to level 5 of the 7-storey commercial podium with basement (with an aggregate gross floor area of 459,951 sq. ft.) have been pre-leased to an independent third party for a term of 10 years, which is expected to commence before end of October 2002. Subsequent to the period under review, leases have been entered into for level 6 and basement 1 of the commercial podium as well as the commercial signboards for a term of 10 years and lease for the TV display screen for a term of 5 years. Aggregate annual rental for these tenancy agreements will amount to about RMB12 million (or approximately HK\$11.2 million) for the first year and escalating rent thereafter. Total rental income for the entire lease period will amount to approximately RMB168 million (or approximately HK\$157 million). Negotiation for the lease of level 7 of the commercial podium as well as car parks are in advance stage.

Financial Positions

As at 30th June, 2002, the Group's bank balances and cash amounted to HK\$120,851,000 (31st December, 2001 audited: HK\$136,255,000) and bank and other borrowings amounted to HK\$89,740,000 (31st December, 2001 audited: HK\$81,300,000) of which HK\$49,344,000 (31st December, 2001 audited: HK\$60,033,000) are due within one year. Therefore, the Group has maintained surplus cash of about HK\$31,111,000, (31st December, 2001 audited: HK\$54,955,000) over bank and other borrowings.

Most of the Group's bank balances and borrowings were denominated in Hong Kong dollars and U.S. dollars, risk in exchange rate fluctuation would not be material. Interest on bank borrowings are charged at variable commercial rates prevailing in Hong Kong and the PRC.

BUSINESS REVIEW AND PROSPECTS – *Continued*

Prospects

Despite the overhang regarding the uncertain business environment and concerns about the timing of economic recovery in the U.S. and in Hong Kong, the Group believes that continuous investment for the future, including capital investment on plant and machinery as well as staff training, will be rewarding.

With state-of-the-art technology, the Group is able to maintain its quality at the highest level and will actively participate in printing competition to demonstrate our commitment to high quality. This year, we have won six print awards from the Premier Print Awards, the industry's most prestigious awards program honoring excellence in printing.

For the second half-year, the Group will further strengthen its relationship with clients by providing high quality of services and products. The Group will continue its prudent cost control policies and closely monitor the global economic situation with quick response to implement necessary measures towards market changes. We believe competitive prices and value-added services would let us grow with clients together at bad time.

DIRECTORS' INTERESTS IN SHARES

At 30th June, 2002, the interests of the directors and chief executives and their associates in the securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), are as follows:

Name of director	Nature of interest	Number of ordinary shares of the Company held
Mr. SHEK Lai Him, Abraham	Personal interests	10,000

Other than as disclosed above, at 30th June, 2002, none of the directors or chief executives of the Company, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or chief executives, nor their spouses or their children under the age of 18, had any rights to subscribe for the securities of the Company or had exercised any such rights during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following shareholders as having an interest of 10 percent or more in the Company's issued ordinary share capital:

Name of shareholder	Number of ordinary share held
Gold Throne Finance Limited	84,000,000
Chuang's China Investments Limited	84,000,000 (<i>note</i>)
Profit Stability Investments Limited ("PSI")	84,000,000 (<i>note</i>)
Chuang's Consortium International Limited ("CCIL")	84,000,000 (<i>note</i>)

Note: Such interests arose through the ownership of relevant shares by Gold Throne Finance Limited, a wholly owned subsidiary of Chuang's China in which CCIL is entitled to exercise or control the exercise of one third or more of the voting power in general meetings through its wholly-owned subsidiary, PSI.

Other than as disclosed above, the Company has not been notified of any other interests representing 10 percent or more of the Company's issued ordinary share capital at 30th June, 2002.

SHARE OPTIONS

The share option scheme of the Company adopted on 22nd May, 1996 (the "1996 Scheme") was for the primary purpose of providing incentives to directors and eligible employees, and would be valid and effective for a period of ten years from the date of its adoption. Under the 1996 Scheme, the directors of the Company might grant options to any executive director or employee of the Group to subscribe for ordinary shares in the Company at a price notified by the directors and should not be less than 80 percent of the average of the closing prices of the Company's ordinary shares as stated in the daily quotation sheets issued by the Stock Exchange ("Daily Quotation Sheets") for the five trading days immediately preceding the date of the offer of the option or the nominal value of the ordinary shares, whichever is the higher. The number of ordinary shares in respect of which options might be granted to any individual at any time was not permitted to exceed 2.5 percent of the issued ordinary share capital of the Company at any point in time and the maximum number of shares in respect of which options might be granted under the 1996 Scheme should not exceed 10 percent of the issued ordinary share capital of the Company from time to time.

Options granted under the 1996 Scheme should be taken up within 28 days from the date of grant of share options and were exercisable at any time after the date of options were accepted ("Acceptance Date") to the third anniversary of the Acceptance Date, subject to certain restrictions contained in the offer letters. Consideration received by the Company for the options granted was nominal.

SHARE OPTIONS – *Continued*

At 30th June, 2002, the number of shares in respect of which options had been granted under the 1996 Scheme was 1,000,000, representing 0.26 percent of the then issued ordinary share capital of the Company.

A summary of the movements during the period in the share options granted under the 1996 Scheme, which were all granted to employees of the Company and its subsidiaries, is as follows:

Date of grant	Exercise price per share HK\$	Exercisable period	Number of ordinary shares to be issued upon exercise of the share options			
			Balance at 1.1.2002	Lapsed during the period	Exercised during the period	Balance at 30.06.2002
1.3.1999	0.175	1.3.1999 to 28.2.2002	500,000	500,000 (note 1)	–	–
3.2.2000	0.320	3.2.2000 to 2.2.2003	1,000,000	–	–	1,000,000

Note 1: These options lapsed upon expiration of exercisable period.

Pursuant to a special general meeting held on 13th December, 2001, a new share option scheme (the “2001 Scheme”) was adopted by the Company in place of the 1996 Scheme. The termination of the 1996 Scheme did not affect the rights of the holders of the share options granted prior thereto and such options granted continue to remain valid and exercisable in accordance with the 1996 Scheme.

The purpose of the 2001 Scheme is to recognise the contribution of the employees, including directors of the Company and its subsidiaries (the “Eligible Persons”), to the growth of the Group and to further motivate the Eligible Persons to continue to contribute to the Group’s long term prosperity.

Under the 2001 Scheme which is valid and effective for a term of ten years from the date of its adoption, the directors of the Company may grant options to the Eligible Persons to subscribe for ordinary shares in the Company at a price to be notified by the directors and to be no less than the higher of: (i) the closing price of the Company’s ordinary shares as stated in the Daily Quotation Sheets on the day of offer; (ii) the average of the closing prices of the Company’s ordinary shares as stated in the Daily Quotation Sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company’s ordinary shares. The number of ordinary shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1 percent of the issued ordinary share capital of the Company at any point in time, without prior approval from the Company’s shareholders. The maximum number of shares in respect of which options may be granted under the 2001 Scheme shall not exceed 10 percent of the issued ordinary share capital of the Company from time to time.

SHARE OPTIONS – *Continued*

Options granted under the 2001 Scheme must be taken up within 28 days from the date of grant, upon payment of a nominal price. Options may be exercised at any time after the Acceptance Date, but none of them can be exercised later than ten years from the Acceptance Date. No options have been granted under the 2001 Scheme since its adoption.

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

During the six months ended 30th June, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30th June, 2002, none of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.

An audit committee has been established by the Company since 1999 to review and supervise the Company's financial reporting process and internal controls. The current members of the Audit Committee are the two Independent Non-Executive Directors Messrs. Dominic Lai and Shek Lai Him, Abraham and the Non-Executive Director Mr. Lee Sai Wai.

The Group's auditors have carried out a review on the unaudited interim financial statements for the six months ended 30th June, 2002 in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

STAFF

As at 30th June, 2002, the Group employed approximately 3,000 staff and workers, with their remuneration normally reviewed annually. The Group also provides its staff with other benefits including year-end double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

By Order of the Board of
Midas International Holdings Limited

Chan Sheung Chiu
Chairman

Hong Kong, 23rd September, 2002