天鷹電腦集團控股有限公司

SKY HAWK COMPUTER GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

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interim report

The Board of Directors of Sky Hawk Computer Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together the "Group" or "Sky Hawk") for the six months ended 30 June 2002 together with the comparative figures for the corresponding period last year, as follows:

Consolidated income statement (unaudited)

For the six months ended 30 June 2002

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2002 $'000	2001 $'000
Turnover	2	**75,337**	114,695
Cost of sales		**(55,665)**	(87,637)
		19,672	27,058
Other net (expense)/income	3	**(1,237)**	1,047
Distribution costs		**(8,188)**	(8,112)
Administrative expenses		**(6,130)**	(5,556)
Profit from operations		**4,117**	14,437
Finance costs	4	**(237)**	(773)
Profit from ordinary activities before taxation	4	**3,880**	13,664
Taxation	5	**—**	(1,250)
Profit attributable to shareholders		**3,880**	12,414
Final dividend proposed after the balance sheet date	6	**—**	2,905
Earnings per share			
Basic	7	**1.0 cents**	4.1 cents

No separate statement of recognised gains and losses has been prepared as the net profit for the period would be the only component of this statement.

The notes on pages 4 to 15 form part of this interim financial report.

Consolidated balance sheet (unaudited)

At 30 June 2002

(Expressed in Hong Kong dollars)

	Note	At 30 June 2002 $'000	At 31 December 2001 $'000
Non-current assets			
Fixed assets		43,922	47,826
Construction in progress		4,257	1,730
		48,179	49,556
Current assets			
Inventories	8	41,239	38,859
Trade and other receivables	9	106,812	110,007
Cash and cash equivalents		16,149	7,155
		164,200	156,021
Current liabilities			
Secured bank loans	10	8,273	10,170
Trade and other payables	11	23,149	63,033
Tax payable		10,100	10,100
Dividend payable	6	2,905	—
		44,427	83,303
Net current assets		119,773	72,718
NET ASSETS		167,952	122,274
CAPITAL AND RESERVES			
Share capital	12	41,500	200
Reserves	13	126,452	122,074
		167,952	122,274

The notes on pages 4 to 15 form part of this interim financial report.

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2002

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2002 $'000	2001 $'000
Net cash (outflow)/inflow from operating activities		(28,377)	7,383
Net cash used in investing activities		(5,849)	(6,731)
Net cash provided by/(used in) financing activities		43,220	(1,023)
Increase/(decrease) in cash and cash equivalents		8,994	(371)
Cash and cash equivalents at 1 January		7,155	8,758
Cash and cash equivalents at 30 June		16,149	8,387
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		16,149	8,387

The notes on pages 4 to 15 form part of this interim financial report.

Notes on the unaudited interim financial report

(Expressed in Hong Kong dollars)

1. BASIS OF PRESENTATION

The interim financial report is unaudited, but has been reviewed by the Company's Audit Committee. The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 (revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The financial information relating to the financial year ended 31 December 2001 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 2001 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 April 2002.

The same accounting policies adopted in the 2001 annual financial statements have been applied to the interim financial report, with the exception of changes in presentations of cash flow statement to comply with revised Statement of Standard Accounting Practice ("SSAP") issued by the HKSA, which is mandatory for accounting periods beginning on or after 1 January 2002. On adoption of SSAP 15 (revised) "Cash flow statements", presentations of cash flow statement have been changed to conform with the requirements of this revised SSAP.

1. BASIS OF PRESENTATION (Cont'd)

The Company was incorporated on 27 July 2001 and was listed on the Main Board of the Stock Exchange on 17 January 2002. On 28 December 2001 the Company became the holding company of the Group pursuant to a group reorganisation ("Reorganisation"). Details of the Reorganisation are set out in the Prospectus of the Company dated 8 January 2002. The Group resulting from the Reorganisation is regarded as a continuing entity, and accordingly, the Reorganisation has been accounted for on the basis of merger accounting. The interim financial report has been prepared as if the current group structure had been in existence throughout the six month periods ended 30 June 2001, rather than from the date on which the Reorganisation was complete. The consolidated balance sheet at 31 December 2001 is a combination of the balance sheets of the Company and its subsidiaries at 31 December 2001. Directors are of the opinion that the interim financial report prepared on this basis presents fairly the results of operations and the state of affairs of the Group as a whole.

The note on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual financial statements.

2. TURNOVER

An analysis of the Group's turnover and contribution to its profit from operations by products category is as follows:

	Group's turnover Six months ended 30 June		Contribution to profit from operations Six months ended 30 June	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Personal computer peripherals	**54,918**	86,895	**10,979**	16,567
Networking products	**15,795**	24,845	**6,891**	9,752
Computer accessories	**4,624**	2,955	**1,802**	739
	75,337	114,695	**19,672**	27,058
Operating expenses			**(15,555)**	(12,621)
			4,117	14,437

Pursuant to the relevant of the People's Republic of China ("PRC") tax regulations, the Group's subsidiary in the PRC is predominately engaged in export sales and is exempted from value added tax which is levied at 17% of the sales value less any input value added tax incurred by the subsidiary.

3. OTHER NET (EXPENSE)/INCOME

	Six months ended 30 June	
	2002	2001
	$'000	$'000
Interest income	**133**	37
Net (loss)/gain on disposal of fixed assets	**(1,234)**	69
Net exchange (loss)/gain	**(650)**	157
Gains on disposal of scrap materials	**514**	784
	(1,237)	1,047

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	Six months ended 30 June	
	2002	2001
	$'000	$'000
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	**237**	773
(b) Other items:		
Cost of inventories*	**55,665**	87,637
Depreciation*	**6,059**	4,560
Operating lease charges in respect of properties*	**2,625**	2,671
Provision for doubtful debts	**—**	1,034
Research and development costs	**1,509**	—
Staff costs*		
— wages, salaries and benefits	**9,328**	11,233
— contributions to retirement scheme	**258**	304

* *Cost of inventories includes $12,835,000 (2001: $14,121,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.*

5. TAXATION

	Six months ended 30 June	
	2002	2001
	$'000	$'000
Provision for tax for the period:		
— Taiwan income tax	—	507
— PRC income tax	—	743
	—	1,250

No provision has been made for Hong Kong profits tax as the Group did not have profits assessable to Hong Kong profits tax for both periods presented.

No provision for Taiwan income tax and PRC income tax has been made as the Group sustained a loss for Taiwan and PRC tax purposes during the period.

No provision for deferred tax has been made as the effect of all timing differences is immaterial for the respective periods.

6. DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting held on 17 June 2002, a final dividend of $0.7 cents (2000: $Nil cents) per share totalling $2,905,000 in respect of the year ended 31 December 2001 was paid on 2 July 2002.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of $3,880,000 (2001: $12,414,000) and the weighted average of 403,176,796 (2001: 300,000,000) ordinary shares in issue during the period, being the shares that would have been in issue throughout the period on the assumption that the Reorganisation as set out in the section headed "Resolutions of all shareholders of the Company passed on 28 December 2001" in the Appendix V to the Prospectus was complete on 1 January 2001.

There were no potential dilutive shares in issue for both periods.

8. INVENTORIES

	At 30 June 2002 $'000	At 31 December 2001 $'000
Raw materials	**18,761**	21,868
Work in progress	**17,980**	15,189
Finished goods	**4,498**	1,802
	41,239	38,859

Included in finished goods are inventories of $nil (at 31 December 2001: $1,083,000), stated net of a general provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

9. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2002 $'000	At 31 December 2001 $'000
Current	38,023	63,706
1 to 3 months	26,789	27,015
More than 3 months but less than 12 months	27,614	4,868
Total trade receivables	92,426	95,589
Deposits, prepayments and other receivables	14,386	14,418
	106,812	110,007

Credit terms granted by the Group to customers generally range from one to four months.

10. SECURED BANK LOANS

	At 30 June 2002 $'000	At 31 December 2001 $'000
Secured bank borrowings		
— Short term loans	—	1,000
— Trust receipt loans	8,273	9,170
	8,273	10,170

All the bank loans are repayable within one year.

10. SECURED BANK LOANS (Cont'd)

As at 30 June 2002, the bank borrowings of the Group were secured as follows:

(i) inventories released under the trust receipt loans;

(ii) mortgages over certain properties of the Group;

(iii) mortgages over a property owned by Ms Ko Su Mei, a shareholder of the Company; and

(iv) personal guarantees issued by the controlling shareholders and a director.

All the personal guarantees given by the controlling shareholders and a director and mortgage over a property provided by a shareholder to secure the Group's banking facilities were subsequently released on 11 September 2002 and replaced by corporate guarantees of the Company.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are creditors with the following aging analysis:

	At 30 June 2002 $'000	At 31 December 2001 $'000
Due within 1 month or on demand	1,473	20,419
Due after 1 month but within 3 months	9,392	18,296
Due after 3 months but within 6 months	1,909	6,579
Over 6 months but less than 1 year	—	4,340
Total trade payables	12,774	49,634
Accrued expenses and other payables	10,375	13,399
	23,149	63,033

The credit terms obtained by the Group range from one to six months.

12. SHARE CAPITAL

Issued and fully paid ($0.10 each)

	No. of shares ('000)	$'000
At 1 January 2002	2,000	200
Shares issued under the Reorganisation	298,000	29,800
Shares issued under the Placing and Public Offer	100,000	10,000
Shares issued under the over-allotment option	15,000	1,500
At 30 June 2002	415,000	41,500

13. RESERVES

	Share premium $'000	Statutory reserve fund $'000	Retained profits $'000	Total $'000
At 1 January 2002	3,189	228	118,657	122,074
Profit for the period	—	—	3,880	3,880
Share premium from issuance of shares	40,000	—	—	40,000
Capitalisation issue	(29,800)	—	—	(29,800)
Issuing expenses	(12,534)	—	—	(12,534)
Share premium from the over-allotment option	5,737	—	—	5,737
Dividends	—	—	(2,905)	(2,905)
At 30 June 2002	6,592	228	119,632	126,452

14. COMMITMENTS

Operating lease commitments

As at 30 June 2002, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2002 $'000	At 31 December 2001 $'000
Within 1 year	5,809	5,333
After 1 year but within 5 years	24,167	23,765
After 5 years	—	2,724
	29,976	31,822

15. RELATED PARTY TRANSACTIONS

Details of significant non-recurring related party transactions during the period were as follows:

During the period, a residential property owned by Ms Ko Su Mei, who is a shareholder, was provided as part of the security pledged against the banking facilities granted to the Group. The controlling shareholders also provide personal guarantees to secure these banking facilities. As at 30 June 2002, such banking facilities together with the utilised amounts were as follows:

	(in thousand)	At 30 June 2002	At 31 December 2001
Facilities amounts	NT$	95,000	95,000
	US$	3,000	3,000
	HK$	—	1,000
Utilised balance	HK$	8,273	10,170

The Directors of the Company are of the opinion that the above non-recurring transactions with related parties were conducted on normal commercial terms in the ordinary course of business of the Group.

16. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

Throughout the period, the Group has been operating in a single business segment, i.e. the manufacturing and sale of computer peripherals.

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

The Group's business is managed on a worldwide basis, but participates in four major principal economic environments; Europe, Asia Pacific, North America and South Africa. In Europe, the customers are mainly from Spain, Germany, France, Austria, and Italy. In Asia Pacific, the customers are mainly from Japan, Korea, and Australia. And in North America, the customers are mainly from the United States of America.

Revenue from external customers

	Six months ended 30 June	
	2002	2001
	$'000	$'000
Europe	**20,088**	46,403
Asia Pacific	**25,372**	34,602
North America	**25,047**	26,384
South Africa	**4,830**	7,306
	75,337	114,695

16. SEGMENTAL REPORTING (Cont'd)

(b) Geographical segments (Cont'd)

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

17. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board on 17 September 2002.

Management discussion and analysis

RESULTS

For the six months ended June 30, 2002, the Group recorded a turnover of approximately HK$75.3 million, as compared to HK$114.7 million in the same period last year. Profit attributable to shareholders was decreased by 68.7% to approximately HK$3.9 million. Earnings per share were 1.0 HK cents.

Despite the fall in the turnover, the overall gross profit margin gained approximately three percentage point to 26.1%, reflecting the increased share of higher margin products as well as tighter controls on direct costs.

PC Peripherals

For the period under review, sales of PC peripherals decreased by 36.8%, as compared with the same period of 2001. The decrease in sales was due to the Group's decision of ceasing to take orders of iron PC peripheral from March 2002. Moreover, gross profit contributed by this product category recorded a decrease, but to a less extent than that of turnover, of 33.7%. However, the gross profit margin slightly rose to 20.0% (2001: 19.1%) due to the continuous effort of cost controls.

Networking Products

For the first six months of 2002, sales of networking products accounted for similar share of turnover as in the same period of 2001 at about 21%. Moreover, the decrease in turnover by 36.4% was due to the change in customers' behaviour in ordering power supply for network systems. Although gross profit contributed by this product category also decreased by 29.3%, the gross profit margin rose to 43.6% (2001: 39.3%) due to overall improvement of margin in IPC and server chasses, both iron and aluminum.

Computer Accessories

Since computer accessories are offered by Sky Hawk as complementary products to meet its customers' comprehensive needs, this product category does not constitute a major source of revenue for the Group. Its share of overall turnover was 6.1% in the period under review.

Geographical Analysis

For the period under review, Asia Pacific had become the largest market for the Group at 33.7% because the Japanese market was more ready to accept the Group's aluminum products. North America ranked the second at 33.2% while Europe followed as the third at 26.7% due to the Group's above-mentioned decision on iron PC products. South Africa showed a stable share of sales as compared with the same period last year.

Distribution and Administration Expenses

Despite the fall in the staff salary by 17%, the total distribution and administration expenses rose by 5% as compared with the same period last year. It was mainly due to the increased R&D and marketing effort.

BUSINESS REVIEW

The lower turnover and profit levels were due to the fact that the Group has been transforming its business to focus on medium to premium products by phrasing out the manufacture of iron PC products with an emphasis on aluminium alloyed products in order to capture higher margins. The Group intentionally took no orders for iron PC products from March 2002 in order to facilitate the growing demand of aluminium products. Meanwhile, there were growing orders and project cases for aluminium alloyed products, and most of which were on OEM/ODM basis that takes greater development effort and longer cycle to conclude the sales. Therefore, the resulting turnover will be reflected in the second half of the year. Additionally, because of the seasonal nature of the industry, the Group's turnover for the first half of the year is usually lower than the second half one.

The Group's continuing effort in infusing aluminium alloy into the manufacturing of computer products had attracted renowned OEM/ODM clients that laid a solid foundation for the Group's future development. In the first six months of the year, the outstanding OEM/ODM cases from the late 2001, including those for Shuttle Inc, a renowned Taiwan-based motherboard manufacturer had been finalized and delivery of orders commenced from April. This trend is expected to contribute to a significant share of the Group's turnover eventually.

During the period under review, the Group's sales arising from new OEM/ODM business amounted to HK$1.3 million, representing 1.7% of the total turnover.

Furthermore, through its participation in the Computex Taipei 2002 in June, the Group reached cooperation agreements with a number of new sales agents. These newly appointed agents included Liata in Canada, UTT in Russia, A-Top and Fudin in the United States; Premier and Jet in Germany; iCute, Enermax and Green Choice in Taiwan; and BCN, Westan and Anyware in Australia. The Group had also appointed new sales agents in Hong Kong including Eurone Group, Genteelord International Limited and 099 Power.

Meanwhile, the R&D professionals of Sky Hawk have devoted lots of efforts in accelerating the development and production of new products to capture the evolving market needs. In the first six months of the year, the innovative products included high-end aluminium alloyed barebone systems MPC 2200/2201, Hot key and OSD KVM switch, Gigabit ethernet switches NET 1003 which have earned recognitions from the end users.

With regard to the products using the Group's own brandnames, which include SKY HAWK, EAGLE, SKY LINK and MEGA POWER, stable returns were generated for the Group during the period under review.

PROSPECTS

Looking ahead, Sky Hawk's experienced management team will continue their effort to complete the business transformation process by early 2003. This transformation has begun to show its benefits recently as the Group announced a series of cooperations with new OEM clients and sales agents worldwide.

A number of system integration companies and computer manufacturers in the United States, such as Pacific Magtron International Corp. and Everin America Inc., have already placed their first batch of PC chassis orders to the Group. Moreover, two more Taiwan-based motherboard manufacturers and a PRC computer manufacturer are concluding their product specifications with our engineers for the Group's barebone systems and PC chassis, which include the VMC 7288 and MPC series, and the first batch of orders is expected to be delivered in the second half of the year. With these contracts received from OEM clients and agents, it is estimated that the Group will supply 50,000 units of aluminium alloyed chassis per month by the end of the year.

Through the cooperation with various sales agents, Sky Hawk has taken a significant step forward to channel its sophisticated aluminium-alloyed products through the agents' extensive distribution networks. This not only helps the Group to stay ahead of its competitors, but also extends the Group's brand-name to the worldwide markets, facilitating the Group's growth in the future. Apart from the names mentioned above, some more sales agents also showed strong interest in Sky Hawk's products, and discussions are underway in Europe and Asia Pacific. Riding on these achievements, the Group will continue to expand its client base and network of agents, with major effort put in the markets with great potential for premium class of products.

Besides, Sky Hawk will continue to reinforce its R&D capabilities in order to capture the market trend and changing technologies. The new products developed by the R&D professionals to be launched in the second half of this year are expected to include VMC 7288, PSR 4609D7 and PSR 4616B7, IP sharing gateway, Network Attach System (NAS) and Home Gate Router (SOHO Router).

Although the Group is cutting off the production of iron-based products due to its lower profit margin, the sales side will still to be kept. The Group is planning to implement a sub-contracting mechanism to handle sales orders for these lower profit margin products by the end of 2002 or early 2003, thus to increase turnover without utilising the Group's own production capacity. Also from the end of 2002, the Group will begin to outsource certain parts of the manufacturing processes in order to further control the total costs of components.

Good foundation for the future growth have been laid in most of our functional areas for Sky Hawk to become a market leader in the manufacturing of premium computer products. Continuous growth in profitability is expected to be gained from excellent R&D capabilities and products, extensive distribution networks and growing OEM/ODM client base in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June, 2002, the Group had cash and bank balances of a total amount of approximately HK$16.1 million and net current assets of approximately HK$164.2 million. The Group has consistently maintained a solid working capital base during the period under review. As at 30 June, 2002, the current liabilities of the Group was approximately HK$44.4 million whilst the Group had outstanding borrowings of approximately HK$8.3 million. The Group's banking facilities are secured by certain properties of the Group. The gearing ratio (total liabilities to total assets) was 20.9% (at 31 December, 2001: 40.5%).

USE OF PROCEEDS

The net proceeds from the placing and public offer of the Company amounted to approximately HK$45 million. As at 30 June 2002, the Group has utilised a total of approximately HK$29 million of the proceeds. Approximately HK$11.1 million, HK$5.8 million, HK$1.5 million and HK$10.6 million had been applied towards sales development, research & development, production facility and working capital expenses respectively. The remaining proceeds are placed in interest-bearing deposits with licensed banks in Hong Kong. The use of proceeds was in line with the disclosure made in the prospectus of the Company dated 8 January 2002.

CONTINGENT LIABILITIES

As at 30 June, 2002, the Group did not have any contingent liabilities.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June, 2002, the Group had 1,364 employees in the PRC (including Hong Kong and Taiwan) and overseas. In order to maintain competitiveness, the salary and bonus of the staff are based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme and a share options scheme for its staff in Hong Kong, Taiwan and the PRC, the Group has also provided them with various training and development programs.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2002, the interests of the directors in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were set out below:

(i) Interests in the Company

	Ordinary shares of HK$0.1 each				
	Personal interests	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Beneficial Interests					
Mr. Wang Chia Chin	136,300,000	124,400,000 *(Note)*	—	—	260,700,000
Mr. Wang Chia Chun	27,700,000	—	—	—	27,700,000
Mr. Chen Ho Fa	524,000	—	—	—	524,000
Mr. Ko Wen Jui	600,000	—	—	—	600,000
Mr. Chen Fang Yu	1,980,000	—	—	—	1,980,000

Note: These shares are held by Ms. Ko Su Mei, the spouse of Mr. Wang Chia Chin.

(ii) Interests in the subsidiaries of the Company

Each of Messr. Wang Chia Chin and Wang Chia Chun has beneficial interests in his personal capacity in 4,920 and 980 non-voting deferred shares of HK$1 each in Eagle Lord Development Limited respectively.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' interests in shares" above, at no time during the period under review were the rights to acquire benefits by means of the acquisition of shares in or debentures of the company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the company and its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at the 30 June 2002, the following interests of 10% or more in the Company's issued shares were recorded in the register of interests in shares required to be kept by the Company pursuant to section 16(1) of the SDI Ordinance:

	Ordinary Shares held	Percentage of total issued shares
Wang Chia Chin *(Note)*	136,300,000	32.84%
Ko Su Mei *(Note)*	124,400,000	29.98%

Note: Under the SDI Ordinance, both Mr. Wang Chia Chin and Ms. Ko Su Mei are taken to be interested in the shares of the Company held by each other. Accordingly, each of the Mr. Wang Chia Chin and Ms. Ko Su Mei is deemed to have approximately 62.82% interest in the Company.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the paragraph headed "Directors' interests in shares" above, had registered an interest of 10% or more in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

SHARE OPTIONS

The company operates a share option scheme ("Share Option Scheme"), which was conditionally adopted on 28 December 2001, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the group's operations. The Share Option Scheme became effective on 17 January 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

During the period under review, no options were granted under the Share Option Scheme.

AUDIT COMMITTEE

The interim results of the Group for the period under review has not been audited. The audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the six months ended 30 June, 2002 with the Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

On behalf of the Board
Wang Chia Chin
Chairman

Hong Kong, 17 September 2002