



PacMOS Technologies Holdings Limited

Interim Report

2002

The Directors are pleased to present the interim report and unaudited condensed accounts of PacMOS Technologies Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June 2002.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2002

	<i>Notes</i>	Unaudited	
		Six months ended 30th June	
		2002	2001
		HK\$'000	HK\$'000
Turnover	2, 4	35,973	41,746
Cost of sales		(27,782)	(32,944)
Gross profit		8,191	8,802
Other revenues	2, 3	1,055	2,477
Distribution costs		(2,213)	(4,298)
General and administrative expenses		(13,864)	(20,572)
Other operating income/(expenses)	5	34,679	(34,831)
Profit/(loss) from operations	6	27,848	(48,422)
Finance costs		(1,309)	(3,041)
Profit/(loss) before taxation		26,539	(51,463)
Taxation	7	(188)	(209)
Profit/(loss) before minority interests		26,351	(51,672)
Minority interests		2,003	(655)
Net Profit/(loss) attributable to shareholders		28,354	(52,327)
Basic earnings/(loss) per share	8	8.4 cents	(15.6 cents)
Diluted earnings/(loss) per share	8	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2002

	Notes	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
ASSETS			
Non-current assets			
Fixed assets	9	10,647	8,916
Intangible assets	9	9,319	10,936
Negative goodwill		(1,737)	(2,137)
Investment property		63,000	63,000
Long-term deposits		1,017	888
		<u>82,246</u>	<u>81,603</u>
Current assets			
Inventories		20,664	13,694
Accounts receivable	10	8,824	1,171
Notes receivable		3,469	209
Prepayments, deposits and others		4,308	12,737
Amounts due from related companies		1,827	1,173
Amount due from a minority shareholder		94	94
Other investments	11	139,118	83,194
Pledged deposits		5,549	4,683
Cash and cash equivalents		35,430	66,333
		<u>219,283</u>	<u>183,288</u>
Total assets		<u>301,529</u>	<u>264,891</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	33,659	33,659
Reserves	15	123,317	93,966
		<u>156,976</u>	<u>127,625</u>
Minority interests			
Non-current liability		29,042	30,152
Long-term bank loan	12	37,506	754
		<u>66,548</u>	<u>30,906</u>
Current liabilities			
Accounts payable and accruals	13	31,919	24,256
Short-term bank loans	12	35,181	72,270
Amounts due to related companies		9,400	8,693
Amounts due to minority shareholders		889	713
Tax payable		616	428
		<u>78,005</u>	<u>106,360</u>
Total equity and liabilities		<u>301,529</u>	<u>264,891</u>

Approved by the Board of Directors on 18th September 2002 and signed on behalf of the Board by

Seto Yee Woon, John
Director

Yip Chi Hung
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2002

	Unaudited	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Total shareholders' funds at 1st January	127,625	205,676
Exchange adjustment on translation of the accounts of overseas subsidiaries	997	(1,714)
Profit/(loss) for the period	28,354	(52,327)
Total shareholders' funds at 30th June	156,976	151,635

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2002

	Unaudited	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	<u>(4,745)</u>	<u>10,326</u>
Net cash used in investing activities	<u>(25,720)</u>	<u>(10,038)</u>
Net cash (outflow)/inflow from financing activities	<u>(1,653)</u>	<u>17,706</u>
(Decrease)/increase in cash and cash equivalents	(32,118)	17,994
Cash and cash equivalents at 1st January	66,333	82,932
Effect of foreign exchange rate changes	<u>1,215</u>	<u>(1,714)</u>
Cash and cash equivalents at 30th June	<u>35,430</u>	<u>99,212</u>

NOTES TO CONDENSED ACCOUNTS

1 Basis of presentation and principal accounting policies

The unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

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

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

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

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

- (a) SSAP 1 (revised) : Presentation of financial statements**
SSAP 25 (revised) : Interim financial reporting

The presentation of a condensed statement of recognized gains and losses have been changed to a condensed statement of changes in equity due to the adoption of SSAP 1 (revised) and SSAP 25 (revised). As a result, the Group prepared a condensed statement of changes in equity for the six months period ended 30th June 2002.

1 Basis of presentation and principal accounting policies *(Continued)*

(b) SSAP 11 (revised) : Foreign currency translation

This revised SSAP prescribes the accounting for the translation of balance sheet and profit and loss of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies. There is no impact on the financial results and financial position of the Group as the Group had earlier adopted this revised SSAP in the previous financial year. Accordingly comparative figures have not been restated.

(c) SSAP 15 (revised) : Cash flow statements

The presentation and classification of items in the cash flow statement have been changed due to the adoption of SSAP 15 (revised). As a result, cash flows during the period have been reclassified by operating, investing and financing activities. For the six months ended 30th June 2001, interest received of approximately HK\$1,881,000 have been reclassified as investing cash flow and interest paid of approximately HK\$3,223,000 has been reclassified as financing cash flow.

(d) SSAP 34 : Employee benefits

This new SSAP prescribes the accounting and disclosure for employee benefits. There is no material impact on the financial results and financial position of the Group by the adoption of this new SSAP and accordingly comparative figures have not been restated.

2 Segment information

The Group is primarily engaged in (i) the design and trading of integrated circuits and distribution of products, (ii) investment property holding and (iii) investment holding.

	2002						2001					
	Design and trading of integrated circuits, and distribution of products	Investment property holding	Investments holding	Unallocated amounts	Elimination	Total	Design and trading of integrated circuits, and distribution of products	Investment property holding	Investments holding	Unallocated amounts	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover												
External	32,851	3,122	–	–	–	35,973	38,568	3,178	–	–	–	41,746
Inter-segments	–	–	–	–	–	–	259	–	–	–	(259)	–
Total turnover	<u>32,851</u>	<u>3,122</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>35,973</u>	<u>38,827</u>	<u>3,178</u>	<u>–</u>	<u>–</u>	<u>(259)</u>	<u>41,746</u>
Cost of sales	(27,782)	–	–	–	–	(27,782)	(32,944)	–	–	–	–	(32,944)
Gross profit	5,069	3,122	–	–	–	8,191	5,883	3,178	–	–	(259)	8,802
Other revenues												
External	839	8	208	–	–	1,055	739	7	566	1,165	–	2,477
Inter-segments	–	–	32,608	–	(32,608)	–	224	–	3,635	–	(3,859)	–
	<u>839</u>	<u>8</u>	<u>32,816</u>	<u>–</u>	<u>(32,608)</u>	<u>1,055</u>	<u>963</u>	<u>7</u>	<u>4,201</u>	<u>1,165</u>	<u>(3,859)</u>	<u>2,477</u>
Segment expenses												
Distribution costs	(2,213)	–	–	–	–	(2,213)	(4,298)	–	–	–	–	(4,298)
General and administrative expenses	(12,783)	(1,642)	(1,751)	(2)	2,314	(13,864)	(18,634)	(964)	(3,864)	(19)	2,909	(20,572)
Other operating income/(expenses)	893	–	33,386	–	400	34,679	1,178	–	(36,628)	619	–	(34,831)
Profit/(loss) from operations	(8,195)	1,488	64,451	(2)	(29,894)	27,848	(14,908)	2,221	(36,291)	1,765	(1,209)	(48,422)
Finance cost	–	–	–	–	–	(1,309)	–	–	–	–	–	(3,041)
Profit/(loss) before tax	–	–	–	–	–	26,539	–	–	–	–	–	(51,463)
Taxation	–	–	–	–	–	(188)	–	–	–	–	–	(209)
Profit/(loss) before minority interests	–	–	–	–	–	26,351	–	–	–	–	–	(51,672)
Minority interests	–	–	–	–	–	2,003	–	–	–	–	–	(655)
Net Profit/(loss) attributable to shareholders	–	–	–	–	–	<u>28,354</u>	–	–	–	–	–	<u>(52,327)</u>
Total segment assets	87,346	65,186	150,516	218	(1,737)	301,529	65,233	71,014	90,429	71,362	–	298,038
Total segment liabilities	39,616	2,359	334	73,202	–	115,511	17,675	1,656	968	90,870	–	111,169
Capital expenditures for segment assets	2,928	–	–	–	–	2,928	508	–	–	–	–	508
Depreciation and amortisation	2,987	–	8	–	–	2,995	2,023	–	15	–	–	2,038
Provision for inventory obsolescence	1,368	–	–	–	–	1,368	2,801	–	–	–	–	2,801
Provision for doubtful debts	145	–	–	–	–	145	311	–	–	–	–	311

2 Segment information (Continued)

Analysis of turnover and contribution to profits/(loss) from operations by geographical location is as follows:

	Turnover	
	Unaudited	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong	3,122	3,178
Taiwan	30,065	31,721
The People's Republic of China	2,786	6,847
	<u>35,973</u>	<u>41,746</u>

	Contribution to profit/(loss)	
	from operations	
	Unaudited	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong	3,122	3,178
Taiwan	3,175	(140)
The People's Republic of China	1,894	5,764
	<u>8,191</u>	<u>8,802</u>
Gross profit	8,191	8,802
Other revenue	1,055	2,477
Income/(expenses), net	<u>18,602</u>	<u>(59,701)</u>
	<u>27,848</u>	<u>(48,422)</u>

3 Other revenues

Analysis of other revenues is as follows:

	Unaudited Six months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Interest income	140	1,881
Exchange gain, net	659	119
Others	256	477
	<u>1,055</u>	<u>2,477</u>

4 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

During the period, the Group's significant transactions with related companies are set out below:

- (a) Rental income of approximately HK\$251,000 and HK\$606,000 (2001 — HK\$251,000 and HK\$606,000) were received and/or became receivable from Fong Wing Shing Construction Company Limited and PCL Holdings Limited respectively. The directors of the Company, Mr. Yip Chi Hung and Mr. Pang Hong, are in a position to exercise significant influence over these companies.
- (b) Manufacturing service fees of approximately HK\$6,657,000 (2001 — Nil) were paid to Mosel Vitelic Inc. ("MVI"). MVI is an indirect substantial shareholder of the Company.

The above-mentioned related party transactions constitute connected party transactions as defined under the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

5 Other operating income/(expenses)

	Unaudited	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Unrealised gain arising from mark-to-market valuation of other investments	32,458	—
Provision for diminution in value of other investments	(35)	(36,409)
Write-back of provision for doubtful debts	249	1,178
Negative goodwill recognised as income	400	400
Refund of withholding tax on prior years' dividend income received on overseas other investments	1,539	—
Gain on sale of other investments	68	—
	<u>34,679</u>	<u>(34,831)</u>

6 Profit/(loss) from operations

Profit/(loss) from operations is arrived at after charging:

	Unaudited	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Depreciation of fixed assets	1,231	452
Amortisation of intangible assets	1,764	1,586
Provision for inventory obsolescence	1,368	2,801
Provision for doubtful debts	145	311
Research and development costs	7,498	8,721
	<u>12,006</u>	<u>13,871</u>

7 Taxation

The Company is exempt from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. Overseas taxation has been calculated on the estimated assessable profit for the period at the rates prevailing in the respective jurisdictions.

	Unaudited	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax	80	76
Overseas taxation	108	133
	188	209

There was no significant unprovided deferred tax assets.

8 Earnings/(loss) per share

The calculation of basic earnings per share for the six months ended 30th June 2002 was based on the consolidated net profit attributable to shareholders of approximately HK\$28,354,000 (2001 – loss of HK\$52,327,000) and the weighted average number of 336,587,142 (2001 – 336,587,142) shares in issue during the period.

Diluted earnings per share for the six months ended 30th June 2002 was not presented as there was no dilution effect on the earnings per share.

9 Capital expenditure

	Total fixed assets <i>HK\$'000</i>	Total intangible assets <i>HK\$'000</i>
Unaudited six months ended 30th June 2002		
Opening net book amount	8,916	10,936
Additions	2,928	—
Disposals	—	—
Depreciation/amortisation charge	(1,231)	(1,764)
Effect of foreign exchange rate changes	34	147
	<u>10,647</u>	<u>9,319</u>
Closing net book amount	<u>10,647</u>	<u>9,319</u>

10 Accounts receivable

	Unaudited 30th June 2002 <i>HK\$'000</i>	Audited 31st December 2001 <i>HK\$'000</i>
Accounts receivable	10,302	2,753
Less: Provision for doubtful debts	(1,478)	(1,582)
	<u>8,824</u>	<u>1,171</u>

10 Accounts receivable (Continued)

Aging analysis of accounts receivable after provision for doubtful debts was as follows:

	Unaudited	Audited
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
0 - 90 days	8,643	996
91 - 180 days	42	150
181 - 365 days	—	25
Over 365 days	139	—
	<hr/> 8,824 <hr/>	<hr/> 1,171 <hr/>

The Group normally grants credit period to customers ranging from 30 days to 120 days.

11 Other investments

	Unaudited	Audited
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
Listed equity securities in the U.S.	94,395	62,514
Listed equity securities in Hong Kong	40	75
Listed short-term investment funds in Taiwan	44,683	20,605
	<hr/> 139,118 <hr/>	<hr/> 83,194 <hr/>
Quoted market values for listed equity securities and short-term investment funds as at period/year end	<hr/> 139,118 <hr/>	<hr/> 83,194 <hr/>

11 Other investments (Continued)

Particulars of the listed investments disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of investee	Place of incorporation	Percentage of share held		Class of shares held
		30th June 2002	31st December 2001	
ChipMOS Technologies (Bermuda) Limited ("ChipMOS")	Bermuda	5%	5%	Ordinary

At 30th June 2002, the quoted market value was approximately US\$3 (at 31st December 2001: US\$2) per share.

12 Long-term bank loans

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Loans		
Unsecured	—	—
Secured	72,687	73,024
	<u>72,687</u>	<u>73,024</u>
Current portion of long-term bank loans	(35,181)	(72,270)
	<u>37,506</u>	<u>754</u>

12 Long-term bank loans (Continued)

At 30th June 2002, the Group's bank loans were repayable as follows:

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Within one year	35,181	72,270
In the second year	4,956	754
In the third to fifth year inclusive	12,600	—
After the fifth year	19,950	—
	<u>72,687</u>	<u>73,024</u>

13 Accounts payable and accruals

Included in accounts payable and accruals were accounts payable, accrued charges and other payables as follows:

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Accounts payable	25,652	13,245
Accrued charges and other payables	6,267	11,011
	<u>31,919</u>	<u>24,256</u>

Aging analysis of accounts payable was as follows:

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
0 - 90 days	11,837	5,238
91 - 180 days	13,305	7,895
181 - 365 days	—	—
Over 365 days	510	112
	<u>25,652</u>	<u>13,245</u>

14 Share capital

	No. of shares	HK\$'000
Authorised:		
At 1st January 2002 and 30th June 2002		
Ordinary shares of HK\$0.1 each	<u>500,000,000</u>	<u>50,000</u>
Issued and fully paid:		
At 1st January 2002 and 30th June 2002		
Ordinary shares of HK\$0.1 each	<u>336,587,142</u>	<u>33,659</u>

15 Reserves

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained profits (Accumulated losses) HK\$'000	Unaudited 30th June 2002 Total HK\$'000	Audited 31st December 2001 Total HK\$'000
Beginning of period/ year	101,263	10,694	(2,757)	(15,234)	93,966	172,017
Revaluation deficit on investment property	-	-	-	-	-	(7,000)
Exchange adjustment on translation of the accounts of overseas subsidiaries	-	-	997	-	997	(2,353)
Profit/(loss) for the period/year	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,354</u>	<u>28,354</u>	<u>(68,698)</u>
End of period/year	<u>101,263</u>	<u>10,694</u>	<u>(1,760)</u>	<u>13,120</u>	<u>123,317</u>	<u>93,966</u>

16 Commitments

Operating lease commitments

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

	Unaudited 30th June 2002 <i>HK\$'000</i>	Audited 31st December 2001 <i>HK\$'000</i>
Total future minimum lease payments payable:		
– Within one year	1,238	1,611
– In the second to fifth year inclusive	219	494
	<u>1,457</u>	<u>2,105</u>

RESULTS

For the six months ended 30th June 2002, the Group achieved a turnover of approximately HK\$36.0 million as compared to approximately HK\$41.7 million of the corresponding period last year. The net profit attributable to shareholders was approximately HK\$28.4 million, as compared to a loss of approximately HK\$52.3 million of the corresponding period last year.

DIVIDEND

The Directors do not recommend the payment of an interim dividend, and recommend that the retained profits of approximately HK\$13,120,000 at 30th June 2002 be carried forward.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

(a) Design and trading of integrated circuits and distribution of products

The market demand in this business segment remained sluggish in the first two quarters of this year. This segment registered a turnover of approximately HK\$32.9 million, dropped approximately 15% as compared to that of the same period last year. However, the gross profit margin remained at around 15%, close to that of last year. With efforts to cut overhead costs, the loss from operations had reduced to approximately HK\$8.2 million as compared to approximately HK\$14.9 million for the corresponding period of last year.

(b) Investment property holding

The income from the investment property in Hong Kong remained stable for the period under review. A gross rental income of approximately HK\$3.1 million was registered.

(c) Investments holding

An unrealized gain of approximately HK\$32.4 million was obtained due to mark-to-market valuation as at 30th June 2002 for the Group's investment in ChipMOS Technologies (Bermuda) Limited. The market price of the investment, which is listed on NASDAQ, has recovered significantly as compared to that of last year.

Liquidity and Financial Resources

As at 30th June 2002, the cash and cash equivalents held by the Group amounted to approximately HK\$35.4 million and the total outstanding bank loans of the Group was approximately HK\$72.7 million, of which approximately HK\$37.5 million were long term loans. The Group recorded a net cash outflow from operating activities of approximately HK\$4.7 million for the period.

Capital Structure

There was no change in the share capital of the Company during the period. The net profit attributable to shareholders for the period of approximately HK\$28.4 million was transferred to the retained profits, making up the reserves of the Group to approximately HK\$123.3 million as at 30th June 2002.

Gearing Ratio

The gearing ratio of the Group, as defined as total liabilities (excluding capital, reserves and minority interest) expressed as a percentage of total assets, was approximately 38.3% as compared to approximately 40.4% as at 31st December 2001.

During the period, the Group arranged a ten-year term loan of HK\$42.0 million by pledging the Group's investment property at 18 Lee Chung Street, Chai Wan, Hong Kong. The funds obtained were then used to repay part of the short-term bank borrowings of the Group.

Gearing Ratio *(Continued)*

With the reduction of interest rates and the total bank borrowings, the finance cost reduced to approximately HK\$1.3 million against that of approximately HK\$3.0 million for the corresponding period of last year.

Foreign Currency Exposure

During the period, the Group recognized in the income statement an exchange gain of approximately HK\$0.7 million. In addition, an exchange adjustment of approximately HK\$1.0 million, mainly attributed to the translation of the accounts of overseas operations denominated in New Taiwan Dollars upon consolidation, was credited to the exchange reserve.

Investments and Capital Assets

With the improvement in share price of ChipMOS Technologies (Bermuda) Limited, the value of the other investments of the Group appreciated to approximately HK\$139.1 million as at 30th June 2002 against that of approximately HK\$83.2 million as at 31st December 2001.

Charge on Assets

During the period under review, the investment property at 18 Lee Chung Street, Chai Wan, Hong Kong was pledged to a bank to secure a ten-year term loan of HK\$42.0 million.

As at 30th June 2002, bank deposits of approximately HK\$5.5 million were pledged for banking facilities.

Human Resources

In order to improve working efficiency and reduce operating overheads, the number of staff in the Group was reduced to approximately 70 as at 30th June 2002 as compared to approximately 113 as at 31st December 2001.

Contingent Liabilities

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

Future Plans and Prospects

Although the demands for integrated circuit products have not recovered as expected previously, the management has made efforts to reduce operating overheads during the period. With the expectation of a gradual recovery of the industry, the management is anticipating a further improvement in its results in the second half of the year.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2002.

DIRECTORS' INTERESTS IN SHARES

As at 30th June 2002, the interests of the directors in the securities of the Company's subsidiary, 新茂國際科技股份有限公司, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares			Percentage of equity held
	Personal Interests	Corporate interests	Total	
Seto Yee Woon, John	450,000	—	450,000	1.41%

Save as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 30th June 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of a share option scheme adopted by the Company on 25th January 1994, the directors of the Company may, at their discretion, grant options to directors and employees of the Group to subscribe for the Company's shares. The share options granted to and held by the Company's directors as at 30th June 2002 were as follows:

Name of director	Date of grant	Exercise period	Subscription price per share	Number of share options		
				Beginning of period	Cancelled or exercised during the period	End of period
Seto Yee Woon, John	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	5,000,000	—	5,000,000
Pang Hong	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	1,500,000	—	1,500,000
				<u>6,500,000</u>		<u>6,500,000</u>

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

At no time during the six months ended 30th June 2002 was the Company or any of its holding companies or subsidiaries a party to any arrangement to enable any of the Company's directors, their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EMPLOYEE SHARE OPTIONS

On 25th January 1994, a share option scheme was approved by the shareholders of the Company, under which the directors of the Company may, at their discretion, invite employees of the Group, including senior executives and directors, to take up options to subscribe for shares in the Company, subject to the terms and conditions stipulated therein.

The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. During the period, no new share options were granted. As at 30th June 2002, the total number of share options granted was 9,000,000 (31st December 2001: 9,000,000) expiring in August 2003. The scheme will remain in force for a period of ten years from 25th January 1994, being the date of its adoption.

Details of the share options outstanding as at 30th June 2002 were as follows:

Name of director	Date of grant	Exercise period	Subscription price per share	Number of share options		
				Beginning of period	Cancelled or exercised during the period	End of period
Seto Yee Woon, John	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	5,000,000	–	5,000,000
Pang Hong	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	1,500,000	–	1,500,000
Chang Chueh Pin	27th August 1997	27th August 1997 to 26th August 2003	HK\$0.824	<u>2,500,000</u>	–	<u>2,500,000</u>
				<u>9,000,000</u>		<u>9,000,000</u>

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2002, the following entities (not being a director or chief executive of the Company) had registered an interest of 10% or more of the issued share capital of the Company:

Name of Shareholder	Number of issued shares	Percentage holding
Texan Management Limited	145,610,000	43.3%
Vision2000 Venture Limited	106,043,142	31.5%

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 30th June 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th June 2002 with the directors.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period covered by this interim report except that the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the By-laws of the Company.

By Order of the Board
Seto Yee Woon, John
Chairman

Hong Kong, 18th September 2002