太平洋實業控股有限公司

Pacific Plywood Holdings Limited

Interim Report 2002

PPHL

INTERIM RESULTS

The Directors of Pacific Plywood Holdings Limited (the "Company") announce 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 corresponding period in 2001, the unaudited consolidated balance sheet of the Group as at 30th June, 2002 together with comparative audited figures for the immediate preceding year end (31st December, 2001), and unaudited consolidated statement of changes in equity and unaudited condensed consolidated cash flow statement for the six months ended 30th June, 2002 together with the comparative figures for the corresponding period in 2001 (collectively "Unaudited Financial Statements") as follows:–

CONSOLIDATED INCOME STATEMENT – UNAUDITED

		For the six months ended 30th June,	
		2002	2001
	Notes	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**51,630**	62,464
Cost of sales		**(45,667)**	(52,848)
Gross profit		**5,963**	9,616
Other revenue		**529**	771
Distribution costs		**(5,133)**	(4,690)
Administrative expenses		**(5,390)**	(5,485)
Other operating expenses		**(17)**	(230)
Operating loss		**(4,048)**	(18)
Finance costs		**(2,514)**	(3,724)
Loss before taxation	*4*	**(6,562)**	(3,742)
Taxation	*5*	**61**	(136)
Loss before minority interests		**(6,501)**	(3,878)
Minority interests		**–**	247
Loss attributable to shareholders		**(6,501)**	(3,631)
Loss per share – Basic	*6*	**US (0.12) cents**	US (0.07) cents
Loss per share – Diluted	*6*	**N/A**	N/A

CONSOLIDATED BALANCE SHEET – UNAUDITED

	Notes	30th June, 2002 US$'000 (Unaudited)	31st December, 2001 US$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	**121,225**	124,658
Total non-current assets		**121,225**	124,658
Current assets			
Inventories		**17,476**	18,141
Trade receivables	8	**7,351**	8,592
Prepayments		**1,279**	485
Other receivables		**3,920**	4,365
Prepaid tax		**–**	56
Pledged bank balances		**168**	230
Cash and bank balances		**1,762**	1,856
Total current assets		**31,956**	33,725
Current liabilities			
Bank borrowings		**(12,428)**	(17,606)
Trade payables	9	**(16,489)**	(16,978)
Accruals and other payables		**(14,373)**	(13,886)
Taxation payable		**(1,786)**	(1,786)
Total current liabilities		**(45,076)**	(50,256)
Net current liabilities		**(13,120)**	(16,531)
Total assets less current liabilities		**108,105**	108,127
Non-current liabilities			
Long-term bank loans	10	**(67,750)**	(61,225)
Long-term liabilities		**(55)**	(94)
Deferred taxation		**(13)**	(13)
Total non-current liabilities		**(67,818)**	(61,332)
Minority interests		**(1,000)**	(1,000)
NET ASSETS		**39,287**	45,795
CAPITAL AND RESERVES			
Share capital	11	**18,037**	18,037
Reserves		**21,250**	27,758
Shareholders' equity		**39,287**	45,795

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Share premium US$'000	Warrant subscription reserve US$'000	Cumulative translation adjustments US$'000	Capital reserve US$'000	Retained Earning/ (Accumulated Deficits) US$'000	Total US$'000
Balance at 1st January, 2002	90,652	1,400	(3,880)	7,814	(68,228)	27,758
Loss for the period	–	–	–	–	(6,501)	(6,501)
Translation adjustments	–	–	(7)	–	–	(7)
Balance at 30th June, 2002	90,652	1,400	(3,887)	7,814	(74,729)	21,250
Balance at 1st January, 2001	90,652	1,400	(4,056)	–	600	88,596
Loss for the period	–	–	–	–	(3,631)	(3,631)
Translation adjustments	–	–	(270)	–	–	(270)
Balance at 30th June, 2001	90,652	1,400	(4,326)	–	(3,031)	84,695

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS – UNAUDITED

	For the six months ended 30th June,	
	2002	2001
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Net cash inflow from operating activities	**2,755**	6,039
Returns on investments and servicing of finance	**(2,498)**	(3,714)
Taxation refund (paid)	**117**	(18)
Net cash outflow from investing activities	**(794)**	(2,588)
Net cash outflow before financing	**(420)**	(281)
Net cash inflow from financing	**669**	612
Increase in cash and cash equivalents	**249**	331
Effect of foreign exchange rate changes	**(343)**	247
Cash and cash equivalents, beginning of period	**1,856**	1,449
Cash and cash equivalents, end of period	**1,762**	2,027

Analysis of cash and cash equivalents:

	30th June, 2002	30th June, 2001
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Cash and bank deposits	**1,762**	2,027

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The Unaudited Financial Statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting", and on the basis consistent with accounting principles adopted in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except that the Group has prepared Statement of Changes in Equity instead of Statement of Recognised Gains and Losses following its adoption of SSAP 1 (revised) "Preparation of Financial Statements".

2. BASIS OF PRESENTATION

As at 30th June, 2002, the Group had a working capital deficiency of approximately US$13,120,000 (2001 – US$16,531,000) and outstanding bank borrowings of approximately US$80,178,000 (2001 – US$78,831,000) of which approximately US$12,428,000 (2001 – US$17,606,000) would be due for repayment within the next twelve months.

Having regard to this background, in order to improve the Group's financial position, immediate liquidity, cash flows and operations, the directors have adopted various measures to reduce the Group's cash outflows by minimising capital expenditures and adopting other cost-cutting measures.

In addition, the Group has obtained in-principle approval from one of the Group's principal bankers for a rescheduling of the repayment terms of the bank loans granted to one of the Group companies amounting to approximately US$50,416,000. Under the rescheduling arrangement, the bank loan will be repayable commencing on 31st December, 2003 and was classified as long-term bank loans in the balance sheet accordingly. The final legal documentation is yet to be finalised. Save for the above, the directors are of the opinion that there will not be material changes to the terms and conditions of the rescheduled loan compared to those currently in force.

In the opinion of the directors, the Group's cash flow position and results of operations will be improved in the coming period because of the effects of the above measures and therefore the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the Unaudited Financial Statements on a going concern basis. The Unaudited Financial Statements do not include any adjustments should the Group be unable to continue as a going concern.

3. SEGMENTAL INFORMATION

Primary segment by geographical locations of assets:

	For the six months ended 30th June, 2002					
	the PRC	**Hong Kong**	**Singapore**	**Malaysia**	**Elimination**	**Consolidated**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Turnover						
– External	**22,380**	**1,474**	**–**	**27,776**	**–**	**51,630**
– Inter-segment	**–**	**–**	**–**	**632**	**(632)**	**–**
Total turnover	**22,380**	**1,474**	**–**	**28,408**	**(632)**	**51,630**
Result						
Segment result	**(1,541)**	**(129)**	**(363)**	**(1,600)**		**(3,633)**
Unallocated corporate expenses						**(415)**
Operating loss						**(4,048)**
Finance costs						**(2,514)**
Taxation						**61**
Loss before minority interests						**(6,501)**
Assets						
Segment assets	**44,522**	**2,961**	**15,982**	**173,391**	**(83,884)**	**152,972**
Unallocated corporate assets						**209**
Consolidated total assets						**153,181**
Liabilities						
Segment liabilities	**100,313**	**995**	**15,970**	**77,603**	**(83,884)**	**110,997**
Unallocated corporate liabilities						**1,897**
Consolidated total liabilities						**112,894**
Other information						
Capital expenditures	**366**	**36**	**1**	**502**		**905**
Depreciation	**910**	**3**	**257**	**3,771**		**4,941**
Unallocated depreciation						**14**
						4,955

Primary segment by geographical locations of assets:

	For the six months ended 30th June, 2001					
	the PRC *US$'000*	Hong Kong *US$'000*	Singapore *US$'000*	Malaysia *US$'000*	Elimination *US$'000*	Consolidated *US$'000*
Turnover						
– External	24,082	2,671	–	35,711	–	62,464
– Inter-segment	–	–	–	54	(54)	–
Total turnover	24,082	2,671	–	35,765	(54)	62,464
Result						
Segment result	(1,996)	(131)	404	2,213		490
Unallocated corporate expenses						(508)
Operating loss						(18)
Finance costs						(3,724)
Taxation						(136)
Loss before minority interests						(3,878)
Assets						
Segment assets	102,207	2,722	18,441	176,478	(80,725)	219,123
Unallocated corporate assets						282
Consolidated total assets						219,405
Liabilities						
Segment liabilities	91,159	3,216	18,316	75,754	(80,725)	107,720
Unallocated corporate liabilities						2,471
Consolidated total liabilities						110,191
Other information						
Capital expenditures	270	–	528	1,996		2,794
Depreciation	1,891	–	249	3,636		5,776
Unallocated depreciation						18
						5,794

Secondary segment by products:

	For the six months ended 30th June,							
	2002				2001			
	Turnover *US$'000*	**Operating profit/(loss)** *US$'000*	**Assets** *US$'000*	**Capital expenditures** *US$'000*	Turnover *US$'000*	Operating profit/(loss) *US$'000*	Assets *US$'000*	Capital expenditures *US$'000*
Moisture resistant plywood	**17,831**	**(1,071)**	**61,657**	**392**	21,534	836	78,186	1,173
Structural	**10,562**	**(447)**	**23,775**	**81**	16,589	60	43,349	364
Flooring	**5,609**	**(317)**	**11,341**	**197**	6,800	(609)	27,401	134
Weather and boil proof plywood	**6,572**	**(428)**	**18,719**	**100**	7,508	409	22,404	436
Jamb and mouldings	**9,592**	**126**	**17,618**	**68**	7,686	144	15,073	54
Veneer	**1,246**	**(271)**	**361**	**2**	1,906	(109)	934	13
Others	**218**	**(1)**	**2,879**	**15**	441	(11)	1,545	30
Unallocated	**–**	**(1,639)**	**16,831**	**50**	–	(738)	30,513	590
Total	**51,630**	**(4,048)**	**153,181**	**905**	62,464	(18)	219,405	2,794

Turnover by geographical location of customers (by locations where merchandise was delivered):–

	For the six months ended 30th June,	
	2002	2001
	US$'000	*US$'000*
Japan	**24,545**	34,872
United States of America	**10,486**	7,513
The People's Republic of China	**5,182**	6,935
Europe	**4,928**	9,838
Korea	**1,414**	1,069
Others	**5,075**	2,237
Total Turnover	**51,630**	62,464

4. LOSS BEFORE TAXATION

Loss before taxation was determined after charging and crediting the following:

	For the six months ended 30th June,	
	2002	2001
	US$'000	*US$'000*
After Charging:–		
Depreciation of property, plant and equipment	**4,955**	5,794
Interest expense on		
– bank overdrafts and loans	**2,335**	3,368
– finance lease	**13**	21
– others	**166**	335
Staff cost:		
– wages and salaries	**1,556**	1,665
– pension contribution	**151**	142
After crediting:–		
Rental income	**100**	81

5. TAXATION

Taxation in the consolidated income statement comprises:

	For the six months ended 30th June,	
	2002	2001
	US$'000	*US$'000*
Current taxation		
– Hong Kong profits tax	**(61)***	135
– Overseas income tax	**–**	1
	(61)	136

Hong Kong profits tax was provided at the rate of 16% (2001 – 16%) on the estimate assessable profits arising in or derived from Hong Kong. Overseas income tax, representing tax charges on the estimated assessable profits of subsidiaries operating outside Hong Kong, has been calculated at the rates of taxation applicable to the countries in which the relevant subsidiaries operate.

* *Amount represented tax refund received during the six months ended 30th June, 2002.*

6. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately US$6,501,000 (2001 – US$3,631,000) and on the weighted average number of 5,580,897,243 shares (2001 – 5,580,897,243 shares) in issue during the period.

No diluted loss per share for the six months ended 30th June, 2002 and 30th June, 2001 was presented as the dilutive potential ordinary shares were anti-dilutive.

7. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment were:

	For the six months ended 30th June, 2002 *US$'000*
Cost	
Beginning of period	**176,774**
Additions	**905**
Disposals	**(131)**
Exchange difference	**760**
End of period	**178,308**
Accumulated Depreciation	
Beginning of period	**52,116**
Provision for the period	**4,955**
Disposals	**(64)**
Exchange difference	**76**
End of period	**57,083**
Net Book Value	
End of period	**121,225**
Beginning of period	**124,658**

8. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	30th June, 2002 *US$'000*	31st December, 2001 *US$'000*
0-30 days	**6,746**	6,154
31-60 days	**1,058**	2,431
61-90 days	**126**	111
91-180 days	**44**	104
181-360 days	**69**	74
Over 360 days	**2,957**	3,340
	11,000	12,214
Less: Provision for bad and doubtful trade receivables	**(3,649)**	(3,622)
	7,351	8,592

Management of the Group performs ongoing credit and collectibility evaluations of each customer. Provisions for potential credit losses are maintained and such losses in aggregate have not exceeded management's estimates. The Group offers an average credit term of 30 to 180 days to its trade customers.

9. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	30th June, 2002 *US$'000*	31st December, 2001 *US$'000*
0-30 days	**5,467**	6,064
31-60 days	**3,986**	3,328
61-90 days	**3,656**	2,661
91-180 days	**1,488**	4,247
181-360 days	**1,331**	46
Over 360 days	**561**	632
	16,489	16,978

10. LONG TERM BANK LOANS

Long-term bank loans, secured, comprise of the following:

	30th June, 2002	31st December, 2001
	US$'000	*US$'000*
Bank loans repayable within a period		
– not exceeding one year	**2,161**	8,534
– more than one year but not exceeding two years	**8,362**	12,855
– more than two years but not exceeding five years	**53,317**	38,602
– beyond five years	**6,071**	9,768
	69,911	69,759
Less: Amount due within one year included in current liabilities	**(2,161)**	(8,534)
	67,750	61,225

The bank loans bear interest at commercial banking rates ranging from 4.32% to 8.40% (2001 – 5.50% to 10.20%) per annum and are secured by pledges of certain of the Group's assets, corporate guarantees given by the Company, and a personal guarantee given by a director of the Company.

The Group has obtained in-principle approval from one of the Group's principal bankers for a rescheduling of the repayment terms of the bank loans granted to one of the Group companies amounting to approximately US$50,416,000. Under the rescheduling arrangement, the bank loan will be repayable commencing on 31st December, 2003 and was classified as long-term bank loans in the balance sheet accordingly. The final legal documentation is yet to be finalized.

11. SHARE CAPITAL

Details of the Company's share capital are as follows:

	30th June, 2002		31st December, 2001	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***US$'000***	*'000*	*US$'000*
Authorised – shares of HK$0.025 each	**8,000,000**	**25,806**	8,000,000	25,806
Issued and fully paid or credited as fully paid – shares of HK$0.025 each	**5,580,897**	**18,037**	5,580,897	18,037
Beginning and end of period/year	**5,580,897**	**18,037**	5,580,897	18,037

12. RELATED PARTY TRANSACTIONS

A related party is a company in which one or more of the directors or shareholders of the Group have direct or indirect beneficial interests in the company or are in a position to exercise significant influence on the company. Parties are also considered to be related if they are subject to common control or common significant influence. Significant transactions and balances with related parties during the period are summarised below:

a. During the period, the Group paid fees of approximately US$52,000 (2001- US$52,000) to a company of which Mr. Lau Kam Hung, an executive director of the Company who retired on 21st June, 2002, is also a director, for consultancy services provided during the six months ended 30th June, 2002.

b. Certain bank loans and a loan from a national asset management company set up by the Malaysian government are secured by a personal guarantee given by a director of the Company.

13. CONTINGENT LIABILITIES

Contingent liabilities (not provided for in the Unaudited Financial Statements) comprised:

	30th June, 2002	31st December, 2001
	US$'000	*US$'000*
Discounted bills with recourse	**1,726**	1,215

14. COMMITMENTS

a. Operating lease commitments

As at 30th June, 2002, the Group had total future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating lease as follows:

	30th June, 2002	31st December, 2001
	US$'000	*US$'000*
– within one year	**416**	427
– within two to five years	**485**	655
– beyond five years	**1,029**	1,061
	1,930	2,143

b. Other commitments

Under the joint venture agreement for the establishment of Dalian Global Wood Products Company Limited, the Group has committed to pay pre-determined annual fees to the PRC joint venture partner for the period from May 1997 to May 2015. In addition, under the supplemental joint venture agreement for the establishment of Dalian Yizhi Wood Industries Company Limited, the Group has committed to pay pre-determined annual fees to the PRC joint venture partners for the period from January 1997 to January 2017. The total commitments for these pre-determined fees are analysed as follows:

	30th June, 2002	31st December, 2001
	US$'000	*US$'000*
Payable during the following period:		
– within one year	**606**	606
– within two to five years	**2,436**	2,433
– beyond five years	**5,590**	5,896
	8,632	8,935

15. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the current year presentation.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend.

BUSINESS REVIEW

For the first six months of 2002, trading conditions remained difficult due to the global recession which was further exacerbated by the tragic events of 11th September last year. This has been reflected in the Group's results for the six months ended 30th June 2002. The Group recorded a turnover of US$51.6 million, a decrease of US$10.8 million compared to the corresponding period in 2001. The net loss attributable to shareholders was US$6.5 million, compared to last year's loss of US$3.6 million.

During the period under review, the Group faced pressure on its margins as the market price for logs remained strong while the price for plywood saw a downward trend. The price for logs remained strong due to stricter enforcement on the export ban of illegal logs from Indonesia, and illegal logging activities in Indonesia and Malaysia. During the period under review, average log prices increased by about 20%. At the same time, the market price for plywood faced downward price pressures due to over supply and stiff competition from the PRC and Indonesian plywood manufacturers. Global plywood prices dropped by about 10% to 20% as compared to the same period last year.

Under these challenging market conditions, the Group adopted business strategies to respond to the situation while also maintaining its policy of prudent cost controls. For the period ended 30th June, 2002, the Group's inventory levels were reduced to US$17.5 million from US$18.3 million in the same period last year.

The Group is expanding its current revenue base through the introduction of additional new products developed by the Group's committed research and development team. The new product range includes colour flooring and to be developed multilayer flooring products. The former has been well accepted by the market since its launch by the end of last year.

Structural, Flooring and Moulding plywood products remain the Group's major income sources. Given the comparatively high margin for these products, the Group dedicated its plants in Changchun and Dalian to the manufacture of these products. In addition to these high-value products, the Group also continued its traditional manufacture of plywood. The established Manuply plant in Malaysia remained committed to the production of traditional and further high value-added plywood products, including flooring and was able to maintain a production capacity of over 80%.

Japan remained the Group's major market and the main profit contributor to the Group, generating about 48% of turnover. However, the Japanese economy did not escape from the effects of the global recession and trading conditions in Japan were equally challenging. Meanwhile, the weak global economy suppressed the demand for plywood from Europe and the US, with combined sales contributing about 30% to the Group's turnover. However, the depreciation of the US dollar has provided an incentive to European and Japanese manufacturers to increase plywood imports that are denoted in US dollars.

Among existing markets, the PRC has huge market growth potential for flooring products. Total flooring demand in China is about 120 million square meters per year with colour flooring and multilayer flooring accounting for about 5% of market share. These two types of new flooring are gaining acceptance in the Chinese market and orders received by the Group reflect the positive response from buyers in this market. The Group expects to meet the increased demand in the PRC market by increasing production.

The Group is actively seeking new market opportunities to expand its market share. New markets such as Australia, South Korea, the Middle East and the Philippines were being developed during the period. In addition, strategic alliances with several major plywood distributors have enhanced the sales of the Group, providing both greater competitiveness and a strong base for the Group's sales and marketing development.

OUTLOOK

Looking ahead to the second half of 2002, the outlook remains uncertain and the Group expects to face continuing challenges in the market. The Group expects a log supply shortage due to increased enforcement in producer countries on illegal logging exports and illegal harvesting. In view of the challenging global economy, the Group is committed to increasing the log recovery rate and to adjusting the product mix to reduce manufacturing costs and to increase market penetration in existing and potential markets.

The Group is aggressively marketing its color flooring and multilayer flooring products in the PRC and is negotiating with potential buyers from Japan, Korea, Saudi Arab, the USA and Europe. In addition, the Group is also launching a flooring product range used extensively in the US and European markets.

The Group will further strengthen its strong relationships with strategic alliances to restore profitability. At the same time, the Group will also look into new markets such as India, Turkey, Greece, Libya and others, to bring further contributions to the Group.

Being a leader in the Asian plywood industry, the Group remains committed to its current polices to control costs, maintain a focus on existing and new markets, develop new products and a quality product mix, so that it will be ideally positioned to benefit from the recovery in the global economy.

FINANCIAL REVIEW

The net assets of the Group as at 30th June, 2002 was approximately US$39.3 million, compared to US$45.8 million as at 31st December, 2001. Total bank borrowings of the Group was approximately US$80.2 million and the gearing ratio (total bank borrowings to total net assets) was accordingly 204% comparing to 172% as at 31st December, 2001.

As at 30th June, 2002, working capital deficiency was approximately US$13.1 million, compared to US$16.5 million as at 31st December, 2001, representing a slight decrease in deficiency of US$3.4 million.

The bank loans and other banking facilities were secured by pledges of certain of the Group's property, plant and equipment, with a net book value of approximately US$107.7 million, floating charges on certain of the Group's inventory of approximately US$8.3 million, trade receivable of approximately US$91,000, bank balances of approximately US$168,000, corporate guarantees given by the Company and the Chinese Joint Venture partner of the Group's subsidiary in the PRC and a personal guarantee given by a director of the Company.

The Group will continue to streamline its business and minimise capital expenditures.

CONTINGENT LIABILITIES

As at 30th June, 2002, the Group's contingent liabilities were approximately US$1.7 million, representing discounted bills with recourse.

EMPLOYEE RELATIONS

As at 30th June, 2002, the Group had 5,249 staff, 3,006 of whom worked at the Manuply manufacturing plant in Bintulu, Sarawak, Malaysia and 2,186 at facilities in Dalian, Changchun and Jilin, the PRC. In-house training programmes were provided for staff to enhance skills and job knowledge. Management will continue to foster close co-operation with the staff.

FOREIGN EXCHANGE EXPOSURES

Major functional currencies of the Group are United States Dollars, Malaysia Ringgits and Renminbi. All of them are closely linked in term of exchange rate to United States Dollars, the reporting currency of the Group. Foreign currency exposure to the Group is expected to be minimal.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30th June, 2002, the Directors of the Company had the following beneficial interests in the capital of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

Ordinary shares with par value of HK$0.025 each.

	Personal Interest	Corporate Interest*	Total	Percentage of Total Shares Outstanding
Budiono Widodo	248,276,000	1,974,720,000	2,222,996,000	39.83%

* *As at 30th June, 2002, SMI International Limited ("SIL") held 1,974,720,000 shares (2001 – 1,974,720,000 shares) of the Company. Mr. Budiono Widodo, a Director of the Company, held 39.82% of the outstanding shares of SIL. The interest of Mr. Budiono Widodo in the issued shares of SIL was, accordingly, corporate interest in the Company as described in Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").*

Save as disclosed above and the section "Arrangement to purchase shares and debentures" below, the Company had no notice of any interest required to be recorded under Section 29 of the SDI Ordinance as at 30th June, 2002.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

The Company has a share option scheme, under which it may grant options to employees (including executive directors), officer, agent, consultant or representative of the Group to subscribe for shares in the Company. The share options granted as at 30th June, 2002 were as follows:

				Number of shares to be issued under options granted under share option scheme			
Name	Date of Grant	Exercise Period	Subscription price per share	Beginning of period	Granted during the period	Exercised during the period	End of period
Mr. Budiono Widodo, Director	31/5/1996	1/12/1996 to 30/11/2006	HK$0.260	88,000,000	–	–	88,000,000
Mr. Liao Yun Kuang, Director	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	40,800,000	–	–	40,800,000
Mr. Peng Chiu Ching, Director	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	31,000,000	–	–	31,000,000
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	24,500,000	–	–	24,500,000
Others	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	47,000,000	–	–	47,000,000
				231,300,000	–	–	231,300,000

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries or its holding company a party to any arrangements to enable any of the Company's Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Group, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

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

Name	Number of issued shares	Percentage shareholding
SMI International Limited	1,974,720,000	35.38%

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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 shares and unlisted warrants.

AUDIT COMMITTEE

The Board of Directors has established an Audit Committee in year 1998 and has formulated its written terms of reference in accordance with the requirements of The Stock Exchange of Hong Kong Limited. The Audit Committee comprises two independent non-executive Directors and one non-executive Director.

The Unaudited Financial Statements for the six months ended 30th June, 2002 have been reviewed by the Audit Committee of the Company.

COMPLIANCE WITH CODE OF BEST PRACTICE

Except that all the 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 Article 105 of the Company's Bye-laws, 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 six months ended 30th June, 2002, in compliance with the Code of Best Practice contained in Appendix 14 of the Listing Rules.

By Order of the Board
Budiono Widodo
Chairman

Hong Kong, 18th September, 2002