



Teem Foundation Group Ltd.
浩基集團有限公司
(incorporated in Bermuda with limited liability)

2002

Interim Report

The board of directors (the "Board") of Teem Foundation Group Ltd. (the "Company") is pleased to announce the unaudited condensed combined interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2002 together with the comparative figures. The condensed combined interim financial statements are unaudited, but have been reviewed by the Company's audit committee.

CONDENSED COMBINED PROFIT AND LOSS ACCOUNT

		For the six months ended 30th September,	
		2002	2001
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
TURNOVER	3	37,305	34,210
Cost of sales		(28,580)	(24,203)
Gross profit		8,725	10,007
Other revenue		37	49
Administrative expenses		(3,956)	(2,544)
Other operating expenses		(1,863)	–
PROFIT FROM OPERATING ACTIVITIES	5	2,943	7,512
Finance costs	6	(1)	(5)
PROFIT BEFORE TAX		2,942	7,507
Tax	7	(519)	(1,200)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		2,423	6,307
EARNINGS PER SHARE – Basis	8	0.36 cents	1.25 cents
DIVIDEND – Interim	9	13,440	–

CONDENSED COMBINED STATEMENT OF CHANGES IN EQUITY

	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April, 2002	200	–	58,386	58,586
Issue of shares	67,000	38,600	–	105,600
Capitalisation issue of shares	–	(27,646)	(22,554)	(50,200)
Share issue expenses	–	(10,954)	–	(10,954)
Net profit for the period	–	–	2,423	2,423
Interim 2002 dividend	–	–	(13,440)	(13,440)
	<u>67,200</u>	<u>–</u>	<u>24,815</u>	<u>92,015</u>
At 30th September, 2002	<u>67,200</u>	<u>–</u>	<u>24,815</u>	<u>92,015</u>
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April, 2001	200	–	55,819	56,019
Net profit for the period	–	–	6,307	6,307
	<u>200</u>	<u>–</u>	<u>62,126</u>	<u>62,326</u>
At 30th September, 2001	<u>200</u>	<u>–</u>	<u>62,126</u>	<u>62,326</u>

CONDENSED COMBINED BALANCE SHEET

	30th September, 2002 (Unaudited) Notes	31st March, 2002 (Audited)
	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Fixed assets	<u>130</u>	<u>155</u>
CURRENT ASSETS		
Accounts receivable	10 37,470	48,060
Gross amounts due from contract customers	4,621	29
Prepayments, deposits and other receivable	2,412	6,245
Cash and bank balances	68,962	26,728
	<u>113,465</u>	<u>81,062</u>
CURRENT LIABILITIES		
Accounts payable	11 1,690	4,163
Gross amounts due to contract customers	–	3,135
Other payable and accruals	1,617	393
Tax payable	4,806	14,900
Current portion of hire purchase contract payable	9	18
	<u>8,122</u>	<u>22,609</u>
NET CURRENT ASSETS	<u>105,343</u>	<u>58,453</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	105,473	58,608
NON-CURRENT LIABILITY		
Hire purchase contract payable	<u>18</u>	<u>22</u>
	<u>105,455</u>	<u>58,586</u>
CAPITAL AND RESERVES		
Issued capital	67,200	200
Reserves	24,815	58,386
Interim dividend	13,440	–
	<u>105,455</u>	<u>58,586</u>

CONDENSED COMBINED CASH FLOW STATEMENT

	For the six months ended 30th September,	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(2,218)	6,184
NET CASH INFLOW FROM INVESTING ACTIVITIES	19	49
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	44,433	(11,735)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	42,234	(5,502)
Cash and cash equivalents at beginning of period	26,728	13,016
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>68,962</u>	<u>7,514</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>68,962</u>	<u>7,514</u>

NOTES TO CONDENSED COMBINED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th September, 2002

1. Group reorganisation and basis of preparation

The Company was incorporated as an exempted company with limited liability in Bermuda on 14th March, 2002 under the Companies Act 1981 of Bermuda.

Pursuant to a reorganisation arrangement (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24th July, 2002, the Company became the holding company of the Group on 5th July, 2002. The Group Reorganisation involved companies under common control. The unaudited combined interim financial statements for the six months ended 30th September, 2002 have been prepared in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" ("SSAP 27") issued by the Hong Kong Society of Accountants ("HKSA"). The condensed combined interim financial statements for the six months ended 30th September, 2002 together with the comparative figures of the corresponding period in the prior year and the related notes thereto have also been presented in these condensed combined interim financial statements on the basis as if the group structure immediately after the Group Reorganisation, which comprises the Company and all of the other companies as wholly-owned subsidiaries of the Company, resulting from the Group Reorganisation executed on 5th July, 2002, had been in existence throughout the six months ended 30th September, 2001 and 2002 and since 1st April, 2001 or since the respective dates of incorporation of the Company and its subsidiaries, where this is a shorter period.

The unaudited condensed combined interim financial statements have been prepared in accordance with Statements of Standard Accounting Practice No. 25 "Interim financial reporting" ("SSAP 25") issued by the HKSA and with the applicable disclosure requirements of Appendix 16 to Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

2. Principal accounting policies

Except for the following changes, the accounting policies adopted by the Group in this interim report are consistent with those adopted in the Group's accountants' report as set out in the Prospectus.

- SSAP 1 (Revised) : Presentation of financial statements
- SSAP 11 (Revised) : Foreign currency translation
- SSAP 15 (Revised) : Cash flow statements
- SSAP 33 : Discontinuing operations
- SSAP 34 : Employee benefits

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed combined statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed combined financial statements is that the profit and loss account of subsidiaries operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. This SSAP has not had any material impact on these financial statements.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed combined cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has not had any material impact on these condensed combined financial statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had not had any material impact on these condensed combined financial statements.

3. Turnover and segment information

The turnover represents the appropriate proportion of contract revenue from construction contracts.

The Group has only one business segment, which is the provision of carpentry works and other related services, and therefore, no business segmentation analysis is presented.

No geographical analysis is presented as the Group's operations were carried out in Hong Kong.

4. Other revenue

	For the six months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest income	25	49
Others	12	—
	<u>37</u>	<u>49</u>

5. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Depreciation	<u>31</u>	<u>54</u>

6. Finance costs

	For the six months ended 30th September,	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest on hire purchase contracts	<u>1</u>	<u>5</u>

7. Tax

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong.

The Group did not have any significant unprovided deferred tax liabilities in respect of the six months ended 30th September, 2001 and 2002.

8. Earnings per share

The calculation of basic earnings per share for the six months ended 30th September, 2002 is based on the unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$2,423,000 (2001: HK\$6,307,000), and the pro forma weighted average of 672,000,000 (2001: pro forma weighted average of 504,000,000) ordinary shares in issue during the period, assuming that the Group Reorganisation had been completed since 1st April, 2001 or since the respective dates of incorporation of the Company and its subsidiaries, where this is a shorter period.

Diluted earnings per share for the six months ended 30th September, 2001 and 2002 have not been disclosed as there were no dilutive potential ordinary shares outstanding during these periods.

9. Dividend

At a meeting of the Board held on 12th December, 2002, the Board resolved to pay an interim dividend of HK\$2 cents per share of the Company for the six months ended 30th September, 2002 (2001: Nil) to the Company's shareholders whose names appear on the Company's register of members on 3rd January, 2003. This interim dividend will be paid around 7th January, 2003.

10. Accounts receivable

An aged analysis of the accounts receivable of the Group is as follows:

	30th September, 2002 (Unaudited) HK\$'000	31st March, 2002 (Audited) HK\$'000
Current – 90 days	8,521	19,572
91 days – 180 days	19,250	12,572
181 days – 365 days	2,029	583
Over 365 days	2,022	8,253
	31,822	40,980
Retention money receivable	5,648	7,080
	<u>37,470</u>	<u>48,060</u>

Interim applications for progress payments for contract works are normally made on a monthly basis. The Group allows an average credit period of 60 days to its contract customers. For retention money receivable in respect of the contract works, the due dates are usually six months to one year after the issue of the statement of the final accounts of the contract works.

11. Accounts payable

An aged analysis of the accounts payable of the Group is as follows:

	30th September, 2002 (Unaudited) HK\$'000	31st March, 2002 (Audited) HK\$'000
Current – 90 days	341	2,774
91 days – 180 days	7	195
181 days – 365 days	298	320
Over 365 days	1,044	874
	<u>1,690</u>	<u>4,163</u>

12. Share capital

	30th September, 2002 (Unaudited) HK\$'000	31st March, 2002 (Audited) HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each (31st March, 2002: 200,000 ordinary shares of HK\$1.00 each)	<u>100,000</u>	<u>200</u>
<i>Issued and fully paid:</i>		
672,000,000 ordinary shares of HK\$0.10 each (31st March, 2002: 200,000 ordinary shares of HK\$1.00 each)	<u>67,200</u>	<u>200</u>

The following changes in the Company's authorised and issued share capital took place during the period from 14th March, 2002 (date of incorporation) to 30th September, 2002:

- (i) As at the date of incorporation of the Company, its initial authorised share capital was HK\$100,000 divided into 1,000,000 shares, all of which were allotted and issued nil-paid to Chu Chi Ming ("Mr. Chu") on 17th April, 2002.
- (ii) On 5th July, 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of additional 999,000,000 new shares to rank equally with the existing shares in all respects.
- (iii) On 5th July, 2002, the Company allotted and issued 360,000 and 640,000 shares, credited as fully paid, to Mr. Chu and Pan-Star Nominees Limited as part of the consideration and in exchange for the acquisition by the Company of the entire issued share capital of Profitown Venture Corporation ("Profitown Venture").

12. Share capital (continue)

- (iv) On 5th July, 2002, an amount of HK\$100,000 being part of the amount credited to the contributed surplus account of the Company arising from the issue of such 1,000,000 shares in exchange for the entire issued share capital of Profitown Venture as referred to in paragraph (iii) above was applied in paying up in full at par the 1,000,000 shares allotted and issued nil-paid to Mr. Chu on 17th April, 2002 by the Company.
- (v) On 24th July, 2002, the Company allotted and issued a total of 502,000,000 shares credited as fully paid at par to and amongst the shareholders whose names appear on the register of members of the Company (or as such members of the Company may direct) as at the close of business on 9th July, 2002 in proportion (as nearly as possible without involving fractions) to their then respective shareholdings in the Company by way of capitalisation of the sum of HK\$50,200,000 standing to the credit of the share premium account of the Company.
- (vi) On 24th July, 2002, 168,000,000 shares of HK\$0.1 each were issued at HK\$0.3 each to the public by way of new issue and placement of shares for a total cash consideration, before related expenses, of HK\$50,400,000.

A summary of the movements of the Company's ordinary share capital during the period from 14th March, 2002 (date of incorporation) to 30th September, 2002 is as follows:

		Number of shares issued	Share capital HK\$'000
Shares allotted and issued nil paid on 17th April, 2002	(i)	1,000,000	–
Shares issued as part of the consideration for the acquisition of the entire issued share capital of Profitown Venture	(iii)	1,000,000	100
1,000,000 nil paid shares credited as fully paid as the remaining consideration for the acquisition of the entire issued share capital of Profitown Venture	(iv)	–	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the new issue of shares to the public	(v)	502,000,000	–
Pro forma share capital at 31st March, 2002		504,000,000	200
New issue on public listing	(vi)	168,000,000	16,800
Capitalisation of share premium account as set out above		–	50,200
Issued share capital at 30th September, 2002		<u>672,000,000</u>	<u>67,200</u>

12. Share capital (continue)

Share option scheme:

On 6th July, 2002, a share option scheme (the "Scheme") was adopted by the shareholders of the Company. Under the Scheme, the board of directors (the "Board") may, at its discretion, invite any executive director, non-executive director, independent non-executive director and/or full-time or part time employee of any company in the Group from time to time determined by the Board as having contributed to the development and growth of the Company and/or any of its subsidiaries, to take up options at HK\$1 per option to subscribe for such number of shares subject to the terms and conditions stipulated in the Scheme.

The maximum number of shares which may be issued upon exercise of all outstanding options under the Scheme and any other share option schemes of the Company must not in aggregate exceed 67,200,000 shares, representing 10% of the issued share capital of the Company on the date of adoption of the Scheme. Any further grant of options in excess of the foregoing limit must be subject to the approval of the shareholders of the Company in a general meeting unless an approval by shareholders of the Company at general meeting has been obtained pursuant to the terms and conditions stipulated in the Scheme.

No share option was granted by virtue of the Scheme during the period under review.

13. Commitments and contingent liabilities

As at 30th September, 2002, the Company and the Group had no significant commitments and contingent liabilities.

14. Operating lease arrangements

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 30th September, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th September, 2002 (Unaudited) HK\$'000	31st March, 2002 (Audited) HK\$'000
Within one year	734	—
In the second to fifth years, inclusive	1,524	—
	<u>2,258</u>	<u>—</u>

15. Related party transactions

During the six months ended 30th September, 2002, the Group had material transactions with the following related parties:

		For the six months ended 30th September, 2002	
		(Unaudited)	2001
<i>Notes</i>		HK\$'000	(Audited) HK\$'000
Continuing transaction			
Purchases of materials from Lahine Engineering Limited	(i)	<u><u>198</u></u>	<u><u>162</u></u>
Discontinuing transaction			
Handling fees paid to Lahine Engineering Limited for purchasing raw materials	(ii)	<u><u>100</u></u>	<u><u>120</u></u>

Notes:

- (i) The purchase cost was determined based on the resale price to third parties less an appropriate percentage of profit margin.
- (ii) The terms of the transactions were determined in accordance with relevant agreements entered into between the Group and Lahine Engineering Limited ("LEL"). The handling fees were charged by LEL at a fixed amount of HK\$20,000 per month.

Mr. Chu, the director of the Company, was the director of LEL during the six months ended 30th September, 2001 and resigned as a director of LEL on 6th March, 2002.

The directors of the Company consider that the above transactions were carried out in the ordinary course of business.

16. Approval of the interim report

These interim financial statements were approved and authorised for issue by the Board on 12th December, 2002.

INTERIM DIVIDEND

The directors have determined that an interim dividend of HK\$2 cents per share amounting to HK\$13,400,00 should be paid to the shareholders of the Company whose names appear in the Register of Members on 3rd January, 2003 and payable on 7th January, 2003.

The Register of Members of the Company will be closed from 30th December, 2002 to 3rd January, 2003, both day inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Tengis Limited at 4/F., Hutchison House, 10 Harcourt House, Central, Hong Kong, not later than 4:00 p.m. on 27th December, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS**Financial review**

For the six months ended 30th September, 2002, the turnover of the Group was approximately HK\$37.3 million, representing a growth of 9% as compared to the corresponding period last year.

The profit attributable to shareholders of the Group for the six months ended 30th September, 2002 decreased by approximately HK\$3.9 million (or 61.6%) to approximately HK\$2.4 million as compared to the corresponding period last year. Such decrease was mainly attributable to the increase in the administrative expenses after listing and a doubtful debt provision on a contract customer has been made.

Review of operation

During the period under review, the Group successfully completed several substantial contracts including installation of timber door sets at Wan Hoi Street and interior decoration at West Kowloon Reclamation.

As at 30th September, 2002, the total value of the contracts on hand was approximately HK\$24.2 million. The contracts on hand are all progressing satisfactorily and on schedule.

Future prospect

With the PRC's entry in the World Trade Organisation and the hosting of the Olympic Games in 2008, the Board anticipate that the PRC's market of high quality interior decoration and renovation business will become increasingly important and thus the demand for the Group's products and services will strong.

In order to explore the PRC market, the Group will implement the following strategies:

- (a) set up representative offices in the PRC;
- (b) develop sales and marketing strength; and
- (c) develop the sales and marketing team specialized for the PRC market.

By adopting the above-mentioned strategies, the Group intends to establish a close relationship with potential PRC customers and to actively penetrate into the PRC market.

To conclude, the Board is optimistic that the market share and prospects of the Group will continue to grow at a rapid pace.

Liquidity and financial resources

The Group maintains its good financial position with cash and cash equivalents of approximately HK\$69.0 million (31st March, 2002: HK\$26.7 million). The cash and cash equivalents increased significantly by approximately HK\$42.3 million was mainly attributable to the net proceeds from the Company's initial public offer and profits from operations during the period.

As at 30th September, 2002, the Group had a net current assets of approximately HK\$105.3 million (31st March, 2002: HK\$58.5 million). The shareholder equity was of approximately HK\$105.5 million (31st March, 2002: HK\$58.6 million) and the outstanding bank loan and other borrowings was only of approximately HK\$27,000 (31st March, 2002: HK\$40,000), and accordingly the gearing ratio was only 0.00026 (31st March, 2002: 0.00068).

The Board is in the opinion that the Group has sufficient resources and working capital to meet its future development.

The Group's business transactions are denominated in Hong Kong dollars, and thus the Group did not engage in any hedging activities.

As at 30th September, 2002, the Company and the Group had no significant commitments and contingent liabilities.

Employees and remuneration policies

The Group had a total of approximately 29 employees as at 30th September, 2002. The Group recognises the importance of its human resources to its success. Employees are remunerated based on their performance and the prevailing industry practice, with remuneration policies and packages being reviewed on a regular basis. Other staff benefits provided by the Group include mandatory provident fund, medical insurance schemes and life insurance schemes.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 24th July, 2002 amounted to approximately HK\$39.4 million. At the date of this announcement, approximately HK\$1.5 million has been applied as general working capital. The remaining proceeds are placed on short-term deposits with licensed banks in Hong Kong.

DIRECTORS' INTERESTS IN SHARES

At 30th September, 2002, the interests of the directors in the share capital of the Company and its associated corporations, 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:

Ordinary shares of the Company

Name of director	Number of ordinary shares held and nature of interest	
	Corporate	Personal
Mr. Chu Chi Ming	–	342,720,000
Mr. Tang Hin Keung Alfred (<i>Note</i>)	161,280,000	–
Mr. Pun Yuen Sang (<i>Note</i>)	161,280,000	–

Note:

Mr. Tang Hiu Keung Alfred and Mr. Pun Yuen Sang are interested in these shares through Pan-Star Nominees Limited, a company which is 40%, 30% and 30% beneficially owned by Mr. Wei Ming, Mr. Tang Hin Keung Alfred and Mr. Pun Yuen Sang respectively.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

Save as disclosed above and as disclosed below under the heading "Directors' rights to acquire shares", none of the directors 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 and recorded in the register required to be maintained pursuant to Section 29 thereof.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the period were 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Share Option Scheme (the "Scheme") was conditionally approved by a written resolution of all shareholders of the Company dated 6th July, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to enable the Company to grant options to selected employees and directors as incentive or rewards for their contribution to the Group. The board of directors (the "Board") may, at its discretion, invite any executive director, non-executive director, independent non-executive director and/or full-time or part time employee of any company in the Group from time to time determined by the Board as having contributed to the development and growth of the Company and/or any of its subsidiaries, to take up options at HK\$1 per option to subscribe for such number of shares as the Board shall determine at a price calculated in accordance with the paragraph below.

The subscription price for shares under the Scheme will be a price determined by the Board and notified to each grantee and will be the higher of (i) the average closing prices of the shares on the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant, which must be a business day; and (iii) the nominal value of a share.

The maximum number of shares to be issued upon exercise of all outstanding options under the Scheme and any other share option schemes of the Company will not exceed 30% (or where applicable, such higher percentage as may from time to time be permitted under the Listing Rules or by the Stock Exchange) of the total number of the issued shares from time to time. The total number of shares available for issue under options which may be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 67,200,000 shares, representing 10% of the issued share capital of the Company as at the date of listing of shares on the Stock Exchange. The Company may seek approval of its shareholders at a general meeting to renew the 10% limit. However, the total number of shares available for issue under options which may be granted under the Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of renewing such limit. No option may be granted to any one person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of all options granted and to be granted to him in the 12 months period up to and including the date of such grant, exceed 1% of the issued share capital of the Company as at the date of such grant. Any further grant of options in excess of the foregoing limit must be subject to the approval of the shareholders of the Company in a general meeting.

An grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by all the independent non-executive directors (excluding any independent non-executive director who or whose associate is the proposed grantee of the options). If the Company proposes to grant options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive director or their respective associates (as defined in the Listing Rules) which will result in the number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) under the Scheme and any other share option schemes of the Company to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1 per cent of the shares in issue as at the date of such further proposed grant; and (ii) having an aggregate value, based on the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant, in excess of HK\$5,000,000; such further grant shall be subject to the approval of the shareholder of the Company in general meeting. Shareholder's approval must be obtained for any change in the terms of options granted to a grantee who is a substantial shareholder or an independent non-executive director of the Company or their respective associates.

An option may be exercised in accordance with the terms of the Scheme at any time during a period commencing immediately after the date on which the option is accepted and deemed to be granted and expiring on a date to be notified by the Board to each grantee which shall not be more than 10 years from the date on which the option is accepted and deemed to be granted. According to the Scheme, there is no general requirement on minimum holding period or performance targets before an option may be exercised.

The directors may terminate the Scheme, subject to shareholders approval in a general meeting, at any time, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Scheme. Any cancellation of options granted but not exercised shall be approved by the shareholders of the Company in a general meeting.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercisable price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

No share options have been granted under the Scheme up to the date of approval of the Interim Report.

SUBSTANTIAL SHAREHOLDERS

At 30th September, 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	<i>Note</i>	Number of ordinary shares held	Percentage of the Company's share capital
Mr. Chu Chi Ming		342,720,000	51
Pan-Star Nominees Limited	1	161,280,000	24

Note:

1. Pan-Star Nominees Limited is beneficially owned as to 40%, 30% and 30% by Mr. Wei Ming, Mr. Tang Hin Keung Alfred and Mr. Pun Yuen Sang respectively. The above interest in the name of Pan-Star Nominees Limited was also disclosed as interests of Mr. Tang Hin Keung Alfred and Mr. Pun Yuen Sang respectively in the above section headed "Directors' interests in shares".

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

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

The Company's shares were listed on the Stock Exchange on 24th July, 2002. Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since 24th July, 2002.

AUDIT COMMITTEE

The Company established its audit committee with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. This interim financial statements for the period has been reviewed by the Audit Committee.

The Audit Committee comprises two independent non-executive directors of the Company.

CODE OF BEST PRACTICE

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 on The Stock Exchange of Hong Kong Limited since the date of the listing of the Company's shares in accordance with the provisions of the Company's bye-laws.

By Order of the Board
TEEM FOUNDATION GROUP LTD.
Mak Kui Yuen
Director

Hong Kong
12th December, 2002