太平洋實業控股有限公司

Pacific Plywood Holdings Limited

Interim Report 2003

INTERIM RESULTS

The Directors of Pacific Plywood Holdings Limited (the "Company") announce the unaudited consolidated results, the unaudited condensed consolidated cash flow statement and the unaudited consolidated statement of changes in equity of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2003, together with the comparative figures for the corresponding period in 2002 and the unaudited consolidated balance sheet of the Group as at 30th June, 2003 together with comparative audited figures for the immediate preceding year end (31st December, 2002) (collectively "Unaudited Financial Statements") as follows:–

CONSOLIDATED INCOME STATEMENT – UNAUDITED

		For the six months ended 30th June,	
		2003	2002
	Notes	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**64,198**	51,630
Cost of sales		**(53,497)**	(45,667)
Gross profit		**10,701**	5,963
Other revenue		**121**	529
Distribution costs		**(6,121)**	(5,133)
Administrative expenses		**(5,510)**	(5,390)
Other operating expenses		**(110)**	(17)
Operating loss		**(919)**	(4,048)
Finance costs		**(2,049)**	(2,514)
Loss before taxation	*4*	**(2,968)**	(6,562)
Taxation	*5*	**–**	61
Loss before minority interests		**(2,968)**	(6,501)
Minority interests		**–**	–
Loss attributable to shareholders		**(2,968)**	(6,501)
Loss per share – Basic	*6*	**US (0.05) cents**	US (0.12) cents
Loss per share – Diluted	*6*	**N/A**	N/A

CONSOLIDATED BALANCE SHEET – UNAUDITED

	Notes	**30th June, 2003** ***US$'000*** **(Unaudited)**	31st December, 2002 *US$'000* (Audited)
Non-current assets			
Property, plant and equipment	*7*	**114,406**	118,346
Total non-current assets		**114,406**	118,346
Current assets			
Inventories		**29,997**	20,904
Trade receivables	*8*	**15,745**	15,559
Prepayments and other receivables		**6,350**	5,120
Pledged bank balances		**101**	74
Cash and bank balances		**859**	1,243
Total current assets		**53,052**	42,900
Current liabilities			
Bank borrowings		**(22,477)**	(13,645)
Trade payables	*9*	**(30,509)**	(23,136)
Accruals and other payables		**(13,865)**	(13,842)
Taxation payable		**(1,884)**	(1,884)
Total current liabilities		**(68,735)**	(52,507)
Net current liabilities		**(15,683)**	(9,607)
Total assets less current liabilities		**98,723**	108,739
Non-current liabilities			
Long-term bank loans	*10*	**(59,336)**	(66,416)
Long-term liabilities		**(172)**	(137)
Deferred taxation		**(13)**	(13)
Total non-current liabilities		**(59,521)**	(66,566)
Minority interests		**(1,000)**	(1,000)
NET ASSETS		**38,202**	41,173
CAPITAL AND RESERVES			
Share capital	*11*	**18,037**	18,037
Reserves		**20,165**	23,136
Shareholders' equity		**38,202**	41,173

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS – UNAUDITED

	For the six months ended 30th June,	
	2003	2002
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Net cash inflow from operating activities	**827**	2,755
Returns on investments and servicing of finance	**(2,046)**	(2,498)
Taxation refund	**–**	117
Net cash outflow from investing activities	**(1,157)**	(794)
Net cash outflow before financing	**(2,376)**	(420)
Net cash inflow from financing	**1,924**	669
(Decrease) Increase in cash and cash equivalents	**(452)**	249
Effect of foreign exchange rate changes	**68**	(343)
Cash and cash equivalents, beginning of period	**1,243**	1,856
Cash and cash equivalents, end of period	**859**	1,762
Analysis of cash and cash equivalents:		
Cash and bank balances	**859**	1,762

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Share premium	**Warrant subscription reserve**	**Cumulative translation adjustments**	**Contributed Surplus**	**Accumulated losses**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance at 1st January, 2003	90,652	–	(3,882)	7,814	(71,448)	23,136
Loss for the period	–	–	–	–	(2,968)	(2,968)
Translation adjustments	–	–	(3)	–	–	(3)
Balance at 30th June, 2003	90,652	–	(3,885)	7,814	(74,416)	20,165
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

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 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, 2002.

The Unaudited Financial Statements have been prepared under the historical cost convention.

2. BASIS OF PRESENTATION

As at 30th June, 2003, the Group had net current liabilities of approximately US$15,683,000 (US$9,607,000 as at 31st December, 2002) and outstanding bank loans of approximately US$81,813,000 (US$80,061,000 as at 31st December, 2002) of which approximately US$22,477,000 (US$13,645,000 as at 31st December, 2002) is due for repayment within the next twelve months.

In order to further improve the Group's liquidity and working capital, the directors have adopted various measures including minimizing capital expenditures and adopting other cost-cutting measures.

In the opinion of the directors, these measures have improved and will continue to improve the Group's working capital and debt maturity profile 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 twelve months from the balance sheet date. 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 relating to the carrying amount and reclassification of assets and liabilities that might be necessary 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, 2003					
	The PRC *US$'000*	**Hong Kong** *US$'000*	**Singapore** *US$'000*	**Malaysia** *US$'000*	**Elimination** *US$'000*	**Consolidated** *US$'000*
Turnover						
– External	**28,558**	**703**	**–**	**34,937**	**–**	**64,198**
– Inter-segment	**–**	**–**	**–**	**255**	**(255)**	**–**
Total turnover	**28,558**	**703**	**–**	**35,192**	**(255)**	**64,198**
Result						
Segment result	**(593)**	**(90)**	**(462)**	**572**		**(573)**
Unallocated corporate expenses						**(346)**
Operating loss						**(919)**
Finance costs						**(2,049)**
Taxation						**–**
Loss before minority interests						**(2,968)**
Assets						
Segment assets	**56,027**	**1,030**	**15,228**	**188,617**	**(93,548)**	**167,354**
Unallocated corporate assets						**104**
						167,458
Liabilities						
Segment liabilities	**120,613**	**121**	**15,443**	**83,450**	**(93,548)**	**126,079**
Unallocated corporate liabilities						**2,177**
						128,256
Other information						
Capital expenditures	**235**	**–**	**1**	**986**		**1,222**
Unallocated capital expenditures						**–**
						1,222
Depreciation	**864**	**4**	**266**	**3,767**		**4,901**
Unallocated depreciation						**–**
						4,901

Primary segment by geographical locations of assets:

	For the six months ended 30th June, 2002					
	The PRC *US$'000*	Hong Kong *US$'000*	Singapore *US$'000*	Malaysia *US$'000*	Elimination *US$'000*	Consolidated *US$'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
						153,181
Liabilities						
Segment liabilities	100,313	995	15,970	77,603	(83,884)	110,997
Unallocated corporate liabilities						1,897
						112,894
Other information						
Capital expenditures	366	36	1	502		905
Unallocated capital expenditures						–
						905
Depreciation	910	3	257	3,771		4,941
Unallocated depreciation						14
						4,955

Secondary segment by products:

	For the six months ended 30th June,							
	2003				2002			
	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	**12,962**	**102**	**36,883**	**374**	17,831	(1,071)	61,657	392
Structural	**14,444**	**141**	**34,369**	**102**	10,562	(447)	23,775	81
Flooring	**19,166**	**395**	**39,881**	**465**	5,609	(317)	11,341	197
Weather and boil proof plywood	**6,310**	**89**	**21,435**	**218**	6,572	(428)	18,719	100
Jamb and mouldings	**10,607**	**527**	**16,611**	**54**	9,592	126	17,618	68
Veneer	**535**	**(46)**	**788**	**6**	1,246	(271)	361	2
Others	**174**	**14**	**812**	**2**	218	(1)	2,879	15
Unallocated	**–**	**(2,141)**	**16,679**	**1**	–	(1,639)	16,831	50
Total	**64,198**	**(919)**	**167,458**	**1,222**	51,630	(4,048)	153,181	905

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

	For the six months ended 30th June,	
	2003	2002
	US$'000	*US$'000*
Japan	**23,303**	24,545
The People's Republic of China	**16,073**	5,182
United Sates of America	**10,062**	10,486
Europe	**4,914**	4,928
Korea	**3,493**	1,414
Others	**6,353**	5,075
Total Turnover	**64,198**	51,630

4. LOSS BEFORE TAXATION

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

	For the six months ended 30th June,	
	2003	2002
	US$'000	*US$'000*
After charging:–		
Depreciation of property, plant and equipment	**4,901**	4,955
Interest expense on		
– Bank overdrafts and loans	**1,870**	2,335
– Finance lease	**12**	13
– Others	**167**	166
Staff costs		
– wages and salaries	**1,471**	1,556
– pension contribution	**155**	151
After crediting:–		
Rental income	**75**	100

5. TAXATION

Taxation in the consolidated income statement comprises:

	For the six months ended 30th June,	
	2003	2002
	US$'000	*US$'000*
Current taxation		
– Hong Kong profits tax	**–**	(61)*
– Overseas income tax	**–**	–
	–	(61)

Hong Kong profits tax was provided at the rate of 17.5% (2002 – 16%) on the estimated assessable profits arising in or derived from Hong Kong. Overseas taxation, representing tax charges on the estimated assessable profits of subsidiaries operating outside Hong Kong, has been calculated at the rates of taxation applicable in the countries in which the relevant subsidiaries operate.

* *Amount represented tax refund 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$2,968,000 (2002 – US$6,501,000) and on the weighted average number of 5,580,897,243 shares in issue during the period.

No diluted loss per share for the six months ended 30th June, 2003 and 30th June, 2002 was presented as the dilutive potential ordinary shares were anti-diluted.

7. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment were:

	For the six months ended 30th June, 2003 *US$'000*
Cost	
Beginning of period	**220,452**
Additions	**1,222**
Disposals	**(207)**
Exchange adjustments	**(110)**
End of period	**221,357**
Accumulated depreciation	
Beginning of period	**60,936**
Provision for the period	**4,901**
Disposals	**(95)**
Exchange adjustments	**(10)**
End of period	**65,732**
Accumulated impairment loss	
Beginning of period	**41,170**
Provision for the period	**–**
Disposals	**–**
Exchange adjustments	**49**
End of period	**41,219**
Net Book Value	
End of period	**114,406**
Beginning of period	**118,346**

8. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	30th June, 2003 *US$'000*	31st December, 2002 *US$'000*
0-30 days	**6,760**	9,899
31-60 days	**3,842**	4,204
61-90 days	**2,718**	787
91-180 days	**1,792**	339
181-360 days	**380**	78
Over 360 days	**3,437**	3,438
	18,929	18,745
Less: Provision for bad and doubtful trade receivables	**(3,184)**	(3,186)
	15,745	15,559

The Group offers credit term ranging from 30 to 180 days to its customers. Management of the Group performs ongoing credit and collectibility evaluations of each customer and makes provisions for potential credit losses.

9. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	30th June, 2003 *US$'000*	31st December, 2002 *US$'000*
0-30 days	**10,230**	9,132
31-60 days	**7,407**	4,046
61-90 days	**4,659**	3,057
91-180 days	**4,441**	5,837
181-360 days	**2,837**	565
Over 360 days	**935**	499
	30,509	23,136

10. LONG TERM BANK LOANS

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

	30th June, 2003 *US$'000*	31st December, 2002 *US$'000*
Bank loans repayable within a period		
– not exceeding one year	**8,968**	2,776
– more than one year but not exceeding two years	**13,819**	11,866
– more than two years but not exceeding five years	**40,695**	49,367
– beyond five years	**4,822**	5,183
	68,304	69,192
Less: Amount due within one year included in current liabilities	**(8,968)**	(2,776)
	59,336	66,416

The bank loans bear interest at commercial banking rates ranging from 3.82% to 8.40% (2002 – 3.81% to 8.40%) 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.

11. SHARE CAPITAL

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

	30th June, 2003		31st December, 2002	
	Number of shares *'000*	**Nominal value** *US$'000*	Number of shares *'000*	Nominal value *US$'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:

Certain bank loans of approximately US$68,269,000 (US$69,156,000 as at 31st December, 2002) and a loan from a national asset management company set up by the Malaysian government approximately US$3,100,000 (US$3,100,000 as at 31st December, 2002) 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, 2003	31st December, 2002
	US$'000	*US$'000*
Discounted bills with recourse	**543**	445

14. **COMMITMENTS**

a. **Operating lease commitments**

As at 30th June, 2003, the Group had total future aggregate minimum lease payments in respect of land and building under non-cancellable operating lease as follows:

	30th June, 2003	31st December, 2002
	US$'000	*US$'000*
– within one year	**234**	233
– within two to five years	**316**	400
– beyond five years	**965**	997
	1,515	1,630

b. **Other commitments**

Under the agreement with the joint venture partners of the Group's PRC subsidiaries, the Group has committed to pay pre-determined annual fees to the PRC joint venture partner up to May 2015.

	30th June, 2003	31st December, 2002
	US$'000	*US$'000*
Payable during the following period:		
– within one year	**571**	657
– within two to five years	**2,634**	2,628
– beyond five years	**3,733**	3,858
	6,938	7,143

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

During the first half of 2003, the market condition continued to be hampered by unfavorable global factors. The sudden threat and spread of the SARS virus, which had seemingly lost control, (particularly in the PRC the major engine of growth in Asia), has further dampened the Asian economic sentiment, which only just started to mend after the US-led Iraqi war. In the face of possible biological warfare and economic uncertainty, buyers slowed down orders and acceptance of deliveries in the second quarter of the year.

Nevertheless, in difficult market conditions, owing to the Group's experienced management and quality products, turnover increased by 24.3%, as compared to the same period last year from US$51.6 million to US$64.2 million. In the meantime the net loss attributed to shareholders was narrowed down to US$3.0 million from US$6.5 million. Not the least, the prudent cost control policy was able to relieve the pressure on the gross profit margin which recorded a 5.1% points increase compared to last year's corresponding period and the general and administrative expenses had been stabilized despite increases in turnover and sales volume.

During the period under review, the limited supply of logs has generally pushed the prices up over 10%. The tightened supply of logs was due to the Malaysian ban on the import of Indonesian logs. Furthermore, the supply situation is compounded by clampdown on illegal and unauthorized logging activities in Malaysia and Indonesia, together with the global enforcement of reforestation policies by consumer markets, in addition to the delay of log harvesting by concession holders anticipating higher prices, as a consequence of the Iraqi war and the SARS outbreak.

To resolve this high material cost, the Group continued to develop and market high margin new products, including the color floor, multi-layer plywood-based flooring and some new moulding products to the USA from the plant in Dalian. The initial soft launch of the color flooring products has been favorable and is expected to generate significant volume in the PRC. Following this is the multi-layer plywood-based flooring products which are now under development. Initial sales are in a large part targeted at the potentially huge PRC market, which is becoming more affluent. The initial market acceptance was encouraging. These types of flooring are stronger and more robust, with a huge market potential to be explored. As to the new moulding products sold to the USA market, margin is high and the volume is increasing. The sales volume is expected to increase to 5% of the Dalian plant's sales volume.

The current product mix includes Veneer, 2.4mm Plywood, MR Plywood, WBP Plywood, Structural Plywood, LVL, LVS, LVB, Flooring, Mouldings and Building Materials. Flooring products due to their multi-purpose applications, secure the highest profit margin. Currently, all of the Group's plants are running at slightly over 90% capacity.

Japan is still the major market of the Group. However, its contribution to the turnover has dropped to 36%. This was due to its continuous weak economy. However, Japan still pays premium for products that can meet its standard, like its most recent new JAS (Japanese Agricultural Standard) specification (FC****) that most of the South-East Asia's mills are unable to comply with in the short-term. With its reputation of on-time delivery and quality products, the Group is able to meet this JAS specification and is expecting continued sales performance in the Japanese market.

The PRC became one of the major markets to the Group. The growth of general plywood-based flooring in PRC is tremendous and the potential is enormous. This market accounted for 22.4% of the Group's total turnover when compared to only 4.0% in the same period last year. The growth in the PRC has impacted the Group in terms of sales in veneer and the traditional 3-ply plywood, where the product has been produced to meet the PRC's market domestic consumption at lower costs. On the other hand, with the rise in consumerism and income, quality plywood-based flooring is gaining popularity as well.

During the period, the Group has explored some of the new markets such as Korea, Australia, Philippines and Thailand. The Group resolves to be more aggressive in the building of marketing and trading relationships with new clients in these countries and to establish and consolidate its presence in these markets.

During the first six months of 2003, the Group has achieved a very positive progression in the collaborative market and product development efforts in major alliances by developing color flooring and new structural products with leading players in the Japanese market. The Group will continuously improve and build on the strong trade relationships with its strategic business partners in search of more collaborative market and product development.

OUTLOOK

Looking ahead, the plywood market may still encounter many difficulties. The Group is bracing for possible prolonged unfavorable business sentiments throughout the second half of this coming year. The log prices are unlikely to be stabilized as the future economic situation is still uncertain. As the Asian economy creeps out from the effect of SARS and in the face of a potentially explosive situation in the Middle East, which will surely affect the fuel prices, and the continuing uncertainty of the recovery of Japanese, European and American economies. This together with the unresolved problems of limited log supply will cause an upward trend in log prices and affect profit margins of the Group's product, as forecasted for the second half of 2003.

Nevertheless, the growth of quality plywood-based flooring in the PRC is tremendous and the market potential is huge. Currently, quality plywood-based flooring accounts for only about 5% of wooden flooring market, the Group will expand this market with its quality products in addition to appropriate business strategies. The Group believes that the PRC's market will undoubtedly become a fast growing market, contributing significantly to the Group's return.

Building on its established foundation, the Group will focus on its traditional markets, where it already had a strong foothold. In the meantime, the Group will grow into other markets that have a demand for its existing product lines, the expansion of these markets will continue cautiously. In view of the unclear and uncertain future economy, the Group will capitalize on its strong trade relationships with its existing major customers and enhance on volume production. The Group will continue to improve on costs, maximizing productivity and optimizing mix to generate a satisfactory performance in the second half of 2003. Existing resources will be further consolidated to strengthen the business. Furthermore the Group is on constant look out for new products developments in line with existing competence and focus.

Being one of the leading companies in the plywood market, the Group will consolidate and appropriately allocate its resources to develop new markets and products with quality services in line with customers' expectations.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June, 2003, the Group had net current liabilities of approximately US$15.7 million, compared to US$9.6 million as at 31st December, 2002, representing an increase in net current liabilities of US$6.1 million. The increase could be attributable to the commencement of repayment of certain bank loans within the next twelve months and the relevant portion was accordingly reclassified from long-term bank borrowings to short-term bank borrowings.

Capital structure

Bank borrowings of the Group are mainly denominated in United States Dollars, Malaysia Ringgits and Renminbi. Except for the foreign exchange exposure in relation to the loans in Singapore Dollars, equivalent to approximately US$7.3 million, the Group has no significant exposure to foreign exchange fluctuations in relation to its borrowings.

Significant investments, acquisitions and disposals

The Group has no significant investments and material acquisitions and disposal of subsidiaries and associates during the six months ended 30th June, 2003.

Employees

As at 30th June, 2003, the Group had 5,434 staff, 3,040 of whom worked at the Manuply manufacturing plant in Bintulu, Sarawak, Malaysia and 2,346 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.

Details of charges on assets

Bank loans and other banking facilities of the Group were secured by pledges of certain property, plant and equipment with a net book value of approximately US$103.1 million, floating charges on certain inventory of approximately US$15.9 million, trade receivable of approximately US$0.5 million, bank balances of approximately US$0.1 million, corporate guarantees given by the Company and the joint venture partner of the Group's subsidiary in the PRC and a personal guarantee given by a director of the Company.

Future plans for material investment or capital assets

The Group will continue to streamline its business and minimize capital expenditures and has no plan for material investment in the near future.

Gearing ratio

The net assets of the Group as at 30th June, 2003 was approximately US$38.2 million, compared to US$41.2 million as at 31st December, 2002. Total bank borrowings of the Group was approximately US$81.8 million and the gearing ratio (total bank borrowing to total net assets) was accordingly 214% comparing to 194% as at 31st December, 2002.

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.

Contingent liabilities

As at 30th June, 2003, the Group's contingent liabilities were approximately US$543,000, representing discounted bills with recourse.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30th June, 2003, the interests of the Directors and chief executive of the Company in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:–

Interests and short positions in the ordinary shares with par value of HK$0.025 each

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Percentage of shareholding
Budiono Widodo	Beneficial owner	Personal interest	248,276,000	39.83%
	* Interest of a controlled corporation	Corporate interest	1,974,720,000	

* *As at 30th June, 2003, SMI International Limited ("SIL") held 1,974,720,000 shares (2002 – 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 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 352 of the SFO as at 30th June, 2003.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

The Company has a share option scheme, under which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. The status of share options granted and held as at 30th June, 2003 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	31/5/1996	1/12/1996 to 30/11/2006	HK$0.260	88,000,000	–	–	88,000,000
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	40,800,000	–	–	40,800,000
Mr. Peng Chiu Ching	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.

INTERESTS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

Name	**Nature of interests**	**Number of issued shares**	**Percentage of shareholding**
SMI International Limited	Corporate interests	1,974,720,000	35.38%
Simon Eddy	# Corporate interests	449,245,000	8.05%
Ng Soat Hong	# Corporate interests	449,245,000	8.05%
Tjong Jauw Sing	Personal interests	421,905,593	7.56%

449,250,000 shares (representing 8.05% of the issued shares) of the Company were beneficially owned by Delta Cempaka Pte. Limited, which is owned by Simon Eddy and Ng Soat Hong, each holding 50% of the issued shares of Delta Cempaka Pte. Limited.

Other than the interests disclosed above in respect of directors and chief executive, the directors are not aware of any other person who was, as at 30th June, 2003, shown in the register required to be kept under Section 336 of the SFO to be interested, directly or indirectly, in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

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. 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, 2003 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 99 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, 2003, 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, 2003