



PacMOS Technologies Holdings Limited
Interim Report 2003

The directors are pleased to present the interim report and unaudited condensed accounts of PacMOS Technologies Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June 2003.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30th June 2003

		Unaudited	
		six months ended 30th June	
		2003	As restated 2002
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2, 4	48,195	35,973
Cost of sales		(32,342)	(27,782)
Gross profit		15,853	8,191
Other revenues	2, 3	416	1,055
Distribution costs		(1,457)	(2,213)
General and administrative expenses		(9,018)	(13,864)
Other operating (expenses)/income	5	(38,877)	34,679
(Loss)/profit from operations	6	(33,083)	27,848
Finance costs		(900)	(1,309)
(Loss)/profit before taxation		(33,983)	26,539
Taxation	7	(280)	(268)
(Loss)/profit before minority interests		(34,263)	26,271
Minority interests		(2,224)	2,003
Net (loss)/profit attributable to shareholders		(36,487)	28,274
Basic (loss)/earnings per share	8	(10.8 cents)	8.4 cents
Diluted (loss)/earnings per share	8	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2003

			Unaudited	As restated
			30th June	Audited
			2003	31st December
			HK\$'000	2002
<i>Notes</i>				<i>HK\$'000</i>
				<i>(Note 19)</i>
ASSETS				
Non-current assets				
			56,000	56,000
			11,692	12,653
			5,352	7,450
			(937)	(1,337)
			885	894
			72,992	75,660
Current assets				
			22,253	17,811
			9,253	13,465
			2,352	3,538
			204	328
			95	95
			39,096	102,793
			1,656	1,646
			2,339	3,911
			62,488	33,815
			139,736	177,402
Total assets			212,728	253,062

		Unaudited 30th June 2003 HK\$'000	As restated Audited 31st December 2002 HK\$'000 (Note 19)
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	33,659	33,659
Reserves	16	61,362	98,272
		95,021	131,931
Minority interests		28,666	26,822
Non-current liability			
Long-term bank loan	12	32,550	34,650
Deferred taxation	17	1,020	850
		33,570	35,500
Current liabilities			
Accounts payable and accruals	14	26,543	26,968
Current portion of long-term bank loans	12	4,200	4,200
Short-term bank loans	13	21,673	23,157
Amounts due to related companies		1,080	2,692
Amounts due to minority shareholders		1,064	990
Tax payable		911	802
		55,471	58,809
Total equity and liabilities		212,728	253,062

Approved by the Board of Directors on 19th September 2003 and signed on behalf of the Board by

Seto Yee Woon, John
Director

Yip Chi Hung
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30th June 2003 And 2002

	<i>Note</i>	Unaudited Six months ended 30th June 2003 HK\$'000
As previously reported, total shareholders' funds at 1st January		132,781
Effect of adopting SSAP 12		
— provision for deferred tax liabilities	1	(850)
As restated, total shareholders' funds at 1st January		131,931
Exchange adjustment on translation of the accounts of overseas subsidiaries		(423)
Loss for the period		(36,487)
Total shareholders' funds at 30th June		95,021

	<i>Note</i>	Unaudited Six months ended 30th June 2002 <i>HK\$'000</i>
As previously reported, total shareholders' funds at 1st January		127,625
Effect of adopting SSAP 12		
— provision for deferred tax liabilities	<i>1</i>	<u>(680)</u>
As restated, total shareholders' funds at 1st January		126,945
Exchange adjustment on translation of the accounts of overseas subsidiaries		997
Profit for the period		<u>28,274</u>
Total shareholders' funds at 30th June		<u><u>156,216</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For The Six Months Ended 30th June 2003

	Unaudited	
	Six months ended 30th June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	11,627	(4,745)
Net cash from/(used in) investing activities	22,099	(25,720)
Net cash outflow from financing activities	(4,483)	(1,653)
Increase/(decrease) in cash and cash equivalents	29,243	(32,118)
Cash and cash equivalents at 1st January	33,815	66,333
Effect of foreign exchange rate changes	(570)	1,215
Cash and cash equivalents at 30th June	62,488	35,430

NOTES TO CONDENSED ACCOUNTS

1 Basis of presentation and principal accounting policies

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

These condensed interim accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has adopted the new SSAP No. 12 "Income Tax" ("SSAP 12") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting the new SSAP 12 are set out below:

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity and reserves movement in Note 16, the opening shareholders funds/reserves at 1st January 2002 and 2003 have been reduced by approximately HK\$680,000 and HK\$850,000 respectively, which represent prior year adjustment resulting from the unprovided deferred tax liabilities on the taxable temporary differences of the Group's investment property. This change has resulted in the recognition of deferred tax liabilities at 31st December 2001 and 2002 by HK\$680,000 and HK\$850,000 accordingly (Note 17). The profits credited to reserves for the six months ended 30th June 2002 and 12 months ended 31st December 2002 have been reduced by the deferred tax liabilities for the period/year by HK\$80,000 and HK\$170,000 respectively.

2 Segment information

The Group is primarily engaged in (i) the design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties, (ii) investment property holding and (iii) investment holding.

	2003						Restated 2002 (Note 19)					
	Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties HK\$'000	Investment property holding HK\$'000	Investments holding HK\$'000	Unallocated amounts HK\$'000	Elimination HK\$'000	Total HK\$'000	Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties HK\$'000	Investment property holding HK\$'000	Investments holding HK\$'000	Unallocated amounts HK\$'000	Elimination HK\$'000	Total HK\$'000
Turnover												
External	45,899	2,296	—	—	—	48,195	32,851	3,122	—	—	—	35,973
Inter-segments	—	—	—	—	—	—	—	—	—	—	—	—
Total turnover	<u>45,899</u>	<u>2,296</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>48,195</u>	<u>32,851</u>	<u>3,122</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>35,973</u>
Cost of sales	(32,342)	—	—	—	—	(32,342)	(27,782)	—	—	—	—	(27,782)
Gross profit	13,557	2,296	—	—	—	15,853	5,069	3,122	—	—	—	8,191
Other revenues												
External	356	10	50	—	—	416	839	8	208	—	—	1,055
Inter-segments	—	—	5,931	—	(5,931)	—	—	—	32,608	—	(32,608)	—
	<u>356</u>	<u>10</u>	<u>5,981</u>	<u>—</u>	<u>(5,931)</u>	<u>416</u>	<u>839</u>	<u>8</u>	<u>32,816</u>	<u>—</u>	<u>(32,608)</u>	<u>1,055</u>
Segment expenses												
Distribution costs	(1,457)	—	—	—	—	(1,457)	(2,215)	—	—	—	—	(2,215)
General and administrative expenses	(12,097)	(1,051)	(1,466)	—	5,596	(9,018)	(12,783)	(1,642)	(1,751)	(2)	2,314	(13,864)
Other operating (expenses)/income	1,486	—	(40,763)	400	—	(38,877)	893	—	33,386	400	—	34,679
(Loss)/profit from operations	1,845	1,255	(36,248)	400	(335)	(33,083)	(8,195)	1,488	64,451	398	(30,294)	27,848
Finance cost	—	—	—	—	—	(900)	—	—	—	—	—	(1,309)
(Loss)/profit before tax	—	—	—	—	—	(33,983)	—	—	—	—	—	26,539
Taxation	—	—	—	—	—	(280)	—	—	—	—	—	(268)
(Loss)/profit before minority interests	—	—	—	—	—	(34,263)	—	—	—	—	—	26,271
Minority interests	—	—	—	—	—	(2,224)	—	—	—	—	—	2,003
Net (loss)/profit attributable to shareholders	—	—	—	—	—	<u>(36,487)</u>	—	—	—	—	—	<u>28,274</u>
Total segment assets	112,215	58,406	42,649	395	(937)	212,728	87,346	65,186	150,516	218	(1,737)	301,529
Total segment liabilities	26,718	2,470	1,429	58,424	—	89,041	39,616	3,119	334	73,202	—	116,271
Capital expenditures for segment assets	1,479	—	—	—	—	1,479	2,928	—	—	—	—	2,928
Depreciation and amortisation	3,638	—	5	—	—	3,643	2,987	—	8	—	—	2,995
Provision for inventory obsolescence	1,249	—	—	—	—	1,249	1,368	—	—	—	—	1,368
Provision for doubtful debts	133	—	—	—	—	133	145	—	—	—	—	145

2 Segment information *(Continued)*

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

	Turnover	
	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong	2,296	3,122
Taiwan	40,872	30,065
The People's Republic of China (the "PRC")	5,027	2,786
	48,195	35,973

	Contribution to (loss)/profit	
	from operations	
	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong	2,296	3,122
Taiwan	10,691	3,175
The PRC	2,866	1,894
Gross profit	15,853	8,191
Other revenue	416	1,055
(Expenses)/income, net	(49,352)	18,602
	(33,083)	27,848

3 Other revenues

Analysis of other revenues is as follows:

	Unaudited	
	Six months ended 30th June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	293	140
Exchange gain, net	45	659
Others	78	256
	416	1,055
	416	1,055

4 Related party transactions

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

The Group's significant transactions with related companies in the current and previous periods were set out below:

- (a) Rental income of approximately HK\$162,000 and HK\$591,000 (2002: HK\$251,000 and \$606,000) were received from Fong Wing Shing Construction Company Limited and PCL Holdings Limited respectively. Rental was charged under normal commercial terms based on the floor area occupied. The directors of the Company, Mr. Yip Chi Hung and Mr. Pang Hong, are in a position to exercise significant influence over these companies.
- (b) Manufacturing service fees of approximately HK\$Nil (2002: HK\$6,657,000) were paid to Mosel Vitelic Inc. ("MVI"). MVI is an indirect substantial shareholder of the Company.
- (c) Investments of approximately NT\$110,000,000 were made for the period from 25th April to 30th June 2003 in non-convertible corporate bonds issued by MVI. The corporate bonds, which the Group purchased at par value from the open market, bore interest at 5.7% per annum, payable quarterly in arrears. On 30th June 2003, the corporate bonds were redeemed by MVI at par value of NT\$110,000,000. Interest income of approximately HK\$255,000 was received for the period of investment.

4 Related party transactions *(Continued)*

(d) Joint Banking Facilities

As at 30th June 2003, the Group had HK\$100,000,000 (2002: HK\$100,000,000) banking facilities jointly held with a related company ("Joint Banking Facilities"). The Joint Banking Facilities were secured by a first mortgage in favour of the bank over certain properties held by related companies, corporate guarantees from related companies and the Company. The Company's corporate guarantee is limited to any amount drawn by a subsidiary of the Company, Harvest Century Enterprises Limited.

The Joint Banking Facilities are available for usage by the Group and to the extent of any unused portion by the Group, by the related company. As at 30th June 2003, HK\$19,500,000 (2002: HK\$19,500,000) were drawn by the subsidiary company.

5 Other operating (expenses)/income

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Unrealised (loss)/gain arising from mark-to-market valuation of other investments	(40,946)	32,458
Provision for diminution in value of other investments	—	(35)
Write-back of provision for doubtful debts	58	249
Negative goodwill recognised as income	400	400
Refund of withholding tax on prior years' dividend income received on overseas other investments	—	1,539
Gain on sale of other investments	184	68
Gain on disposal of product manufacturing rights	1,427	—
	<u>(38,877)</u>	<u>34,679</u>

6 (Loss)/profit from operations

(Loss)/profit from operations is arrived at after charging:

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Depreciation of fixed assets	1,943	1,231
Amortisation of intangible assets	1,700	1,764
Provision for inventory obsolescence	1,249	1,368
Provision for doubtful debts	133	145
Research and development costs	4,408	7,498
Staff costs	<u>5,120</u>	<u>8,292</u>

7 Taxation

The Company is exempt from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Overseas taxation has been calculated on the estimated assessable profit for the period at the rates prevailing in the countries in which the Group operates.

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax	4	80
Overseas taxation	106	108
Deferred taxation		
— relating to taxable temporary differences	90	80
— resulting from an increase in tax rate	<u>80</u>	<u>—</u>
	<u>280</u>	<u>268</u>

7 Taxation (Continued)

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(33,983)	26,539
Tax at the domestic income tax rate of 17.5% (2002: 16%)	(5,947)	4,246
Tax effect of different taxation rates in other countries	(1,159)	(1,400)
Effect of the tax losses on consolidation	9,301	(2,673)
Tax effect of utilisation of previously unrecognised tax losses	(2,098)	—
Tax effect of depreciation allowed for tax purpose	(93)	(93)
PRC withholding tax	106	108
Effect of deferred tax relating to taxable temporary differences	90	80
Increase in opening deferred tax liabilities resulting from an increase in tax rate	80	—
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Taxation charge	<u>280</u>	<u>268</u>

8 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the six months ended 30th June 2003 was based on the consolidated net loss attributable to shareholders of approximately HK\$36,487,000 (2002: restated net profit of HK\$28,274,000) and the weighted average number of 336,587,142 (2002: 336,587,142) shares in issue during the period.

Diluted earnings per share for the six months ended 30th June 2003 was not presented as there was no dilution effect on the earnings per share.

9 Capital expenditure

	Total Fixed assets <i>HK\$'000</i>	Total Intangible assets <i>HK\$'000</i>
Opening net book amount as at 1st January 2003	12,653	7,450
Additions	1,479	—
Disposals	(312)	(350)
Depreciation/amortisation charge	(1,943)	(1,700)
Effect of foreign exchange rate changes	(185)	(48)
	<u>11,692</u>	<u>5,352</u>
Closing net book amount as at 30th June 2003	<u>11,692</u>	<u>5,352</u>

10 Accounts receivable

	Unaudited 30th June 2003 <i>HK\$'000</i>	Audited 31st December 2002 <i>HK\$'000</i>
Accounts receivable	10,692	14,829
Less: Provision for doubtful debts	(1,439)	(1,364)
	<u>9,253</u>	<u>13,465</u>

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

	Unaudited 30th June 2003 <i>HK\$'000</i>	Audited 31st December 2002 <i>HK\$'000</i>
0 — 90 days	9,253	13,415
91 — 180 days	—	50
181 — 365 days	—	—
Over 365 days	—	—
	<u>9,253</u>	<u>13,465</u>

The Group normally grants credit period to customers ranging from 30 days to 90 days.

11 Other investments

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Listed equity securities in the U.S.	39,071	80,017
Listed equity securities in Hong Kong	25	25
Listed short-term investment funds in Taiwan	—	22,751
	39,096	102,793
Quoted market values for listed equity securities and short-term investment funds as at period/year end	39,096	102,793

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

Name of investee	Place of incorporation	Percentage of share held		Class of shares held
		30th June 2003	31st December 2002	
ChipMOS Technologies (Bermuda) Limited ("ChipMOS")	Bermuda	5%	5%	Ordinary

At 30th June 2003, the quoted market value was US\$1.25 (at 31st December 2002: US\$2.50) per share.

12 Long-term bank loans

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Loans		
Unsecured	—	—
Secured	36,750	38,850
	36,750	38,850
Current portion of long-term bank loans	(4,200)	(4,200)
	32,550	34,650

At 30th June 2003, the Group's bank loans were repayable as follows:

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Within one year	4,200	4,200
In the second year	4,200	4,200
In the third to fifth year inclusive	12,600	12,600
After the fifth year	15,750	17,850
	36,750	38,850

13 Short-term bank loans

As at 30th June 2003, all of the short-term bank loans were secured, interest bearing at prevailing market rates and repayable within one year.

14 Accounts payable and accruals

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

	Unaudited 30th June 2003 <i>HK\$'000</i>	Audited 31st December 2002 <i>HK\$'000</i>
Accounts payable	21,204	17,938
Accrued charges and other payables	5,339	9,030
	26,543	26,968
	26,543	26,968

Aging analysis of accounts payable was as follows:

	Unaudited 30th June 2003 <i>HK\$'000</i>	Audited 31st December 2002 <i>HK\$'000</i>
0 — 90 days	21,119	17,853
91 — 180 days	—	—
181 — 365 days	—	—
Over 365 days	85	85
	21,204	17,938
	21,204	17,938

15 Share capital

	No. of shares	HK\$'000
Authorised:		
At 1st January 2003 and 30th June 2003		
Ordinary shares of HK\$0.1 each	500,000,000	50,000
Issued and fully paid:		
At 1st January 2003 and 30th June 2003		
Ordinary shares of HK\$0.1 each	336,587,142	33,659

16 Reserves

	Share premium	Investment property revaluation reserve	Exchange reserve	Accumulated losses	Unaudited 30th June 2003 Total	Audited 31st December 2002 Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As previously reported, beginning of period/year	101,263	3,694	(2,510)	(3,325)	99,122	93,966
— Effect of adopting SSAP 12 (Note 1)	—	—	—	(850)	(850)	(680)
As restated, beginning of period/year	101,263	3,694	(2,510)	(4,175)	98,272	93,286
Revaluation deficit on investment property	—	—	—	—	—	(7,000)
Exchange adjustment on translation of the accounts of overseas subsidiaries	—	—	(423)	—	(423)	247
(Loss)/profit for the period/year	—	—	—	(36,487)	(36,487)	11,739
End of period/year	101,263	3,694	(2,933)	(40,662)	61,362	98,272

17 Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax liabilities is as follows:

	Unaudited	Audited
	6 months ended	12 months ended
	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
		<i>(Note 19)</i>
At the beginning of the period/year	850	680
Deferred taxation charged to the profit and loss account		
— relating to taxable temporary differences	90	170
— resulting from an increase in tax rate	80	—
	<hr/>	<hr/>
At the end of the period/year	<u>1,020</u>	<u>850</u>

Deferred tax assets are recognised for tax loss carry forwards to the extent that realization of the related tax benefit through future taxable profits is probable. As at 30th June 2003, the Group has unused tax losses of approximately HK\$60 million (2002: HK\$67 million). No related deferred tax asset has been recognised (2002: Nil) as the Directors are of the opinion that it is not probable that there will be taxable profit or temporary differences against which the deferred tax asset can be utilised in the foreseeable future. Included in the unrecognised tax losses are losses of approximately HK\$18 million (2002: HK\$27 million) that will expire as follows:

Expiry	Tax losses
	(HK\$' million)
2003	2
2004	3
2005	5
2006	6
2007	2
	<hr/>
	<u>18</u>

The above losses are subject to approval of the relevant tax authorities in respective jurisdictions.

18 Commitments

Operating lease commitments

At 30th June 2003, the total future minimum lease payments payable under non-cancellable operating leases were as follows:

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Total future minimum lease payments payable:		
— Within one year	813	1,513
— In the second to fifth year inclusive	—	113
	813	1,626
	813	1,626

19 Comparative figures

The comparative figures presented herewith have incorporated the effect of prior year adjustment resulting from the adoption of SSAP 12 (see Note 1).

RESULTS

For the six months ended 30th June 2003, the Group achieved a turnover of approximately HK\$48.2 million as compared to approximately HK\$36.0 million of the corresponding period last year. The net loss attributable to shareholders was approximately HK\$36.5 million, as compared to a net profit of approximately HK\$28.3 million of the corresponding period last year.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Design and trading of integrated circuits and distribution of products

With improved quality and design of our products and better market demand, this segment achieved a turnover of approximately HK\$45.9 million, increased approximately 40% as compared to that of the same period last year. The gross profit margin was approximately 30%, considerably improved as compared to approximately 15% of the same period of last year. The profit from operations of this segment was approximately HK\$1.8 million as compared to a loss of approximately HK\$8.2 million for the corresponding period of last year.

Investment property holding

Attributed to a drop in average occupancy of tenants, the rental income from the investment property in Hong Kong decreased approximately 26% to approximately HK\$2.3 million as compared to the same period last year. The profit from operations of this segment amounted to approximately HK\$1.3 million as compared to HK\$1.5 million for the same period last year. The occupancy rate as at 30th June 2003 was approximately 62%.

Investments holding

For the period under review, an unrealized loss of approximately HK\$40.9 million was obtained due to mark-to-market valuation, at the market price of US\$1.25 per share, as at 30th June 2003 on the Group's investment in ChipMOS Technologies (Bermuda) Limited, which is listed on NASDAQ.

The market price of the investment, which is subject to volatility of the NASDAQ stock market, has recovered considerably after the period end. At 18th September 2003, the quoted market price of the investment was US\$2.81 per share.

Liquidity and Financial Resources

As at 30th June 2003 the cash and cash equivalents held by the Group amounted to approximately HK\$62.5 million. The amount of bank loans of the Group outstanding as at 30th June 2003 was approximately HK\$58.4 million, of which approximately HK\$32.6 million was long-term loan. There was a net increase of cash and cash equivalents for the six months ended 30th June 2003 of approximately HK\$28.7 million, of which, approximately HK\$11.6 million was generated from operating activities.

Capital Structure

There was no change in the share capital of the Company during the period. The net loss attributable to shareholders for the six months ended 30th June 2003 of approximately HK\$36.5 million was transferred to reserves. As at 30th June 2003, the shareholders' funds of the Group amounted to approximately HK\$95.0 million.

Gearing Ratio

The gearing ratio of the Group, as defined as total liabilities (excluding capital, reserves and minority interest) expressed as a percentage of total assets, was approximately 41.9% as compared to approximately 37.3% as at 31st December 2002.

The finance cost of the group reduced to approximately HK\$0.9 million against that of approximately HK\$1.3 million for the corresponding period of last year.

Foreign Currency Exposure

For the period under review, an exchange gain of approximately HK\$45,000 was recognized in the income statement. In addition, an exchange adjustment of approximately HK\$0.4 million, mainly attributed to the translation of the accounts of overseas operations denominated in New Taiwan Dollars upon consolidation, was debited to the exchange reserves.

Investments and Capital Assets

The Group invested approximately HK\$1.5 million in fixed assets during the period under review.

The value of the other investments of the Group decreased to approximately HK\$39.1 million as at 30th June 2003 against that of approximately HK\$102.8 million as at 31st December 2002.

Charge on Assets

The Group's investment property at 18 Lee Chung Street, Chai Wan, Hong Kong was mortgaged to a bank to secure a ten-year term loan with outstanding balance of approximately HK\$36.8 million as at 30th June 2003. The Group's rental income and rental deposits in respect of the mortgaged investment property were also assigned to the bank.

Human Resources

The Group offers competitive remuneration package so as to retain knowledgeable and experienced staff. As at 30th June 2003, the number of staff of the Group was approximately 67.

Contingent Liabilities

As at 30th June 2003, the Group did not have any material contingent liabilities.

Future Plans and Prospects

The Group has successfully strengthened its competitiveness in its main business of design and trading of integrated circuit products. We shall continue to focus on MCUs and flash memories products and to serve customers in the Greater China region. We believe that the Group is well positioned to benefit from the expected growth in the integrated circuits industry.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DIRECTORS' INTERESTS IN SHARES

As at 30th June 2003, the interests of the directors in the securities of the Company's subsidiary, 新茂國際科技股份有限公司, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

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

Save as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SFO as at 30th June 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of a share option scheme adopted by the Company on 25th January 1994, the directors of the Company may, at their discretion, grant options to directors and employees of the Group to subscribe for the Company's shares. The share options granted to and held by the Company's directors as at 30th June 2003 were as follows:

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

At no time during the six months ended 30th June 2003 was the Company or any of its holding companies or subsidiaries a party to any arrangement to enable any of the Company's directors, their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EMPLOYEE SHARE OPTIONS

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

EMPLOYEE SHARE OPTIONS *(Continued)*

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

Details of the share options outstanding as at 30th June 2003 were as follows:

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2003, the following entities (not being a director or chief executive of the Company) had registered an interest of 5% or more of the issued share capital of the Company:

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

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 336 of the SFO as at 30th June 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th June 2003 with the directors.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

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

On behalf of the Board

Seto Yee Woon, John

Chairman

Hong Kong, 19th September 2003