Pacific Plywood Holdings Limited
太平洋實業控股有限公司

PACIFIC PLYWOOD

Interim Report **2004**

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 statement of changes in equity of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2004, together with the comparative figures for the corresponding period in 2003 and the unaudited consolidated balance sheet of the Company as at 30th June, 2004 together with comparative audited figures for the immediate preceding year ended 31st December, 2003 (collectively "Unaudited Financial Statements") as follows:–

CONSOLIDATED INCOME STATEMENT – UNAUDITED

		For the six months ended 30th June,	
		2004	2003
	Note	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**75,636**	64,198
Cost of sales		**(60,546)**	(53,497)
Gross profit		**15,090**	10,701
Other revenue		**188**	121
Distribution costs		**(8,991)**	(6,121)
Administrative expenses		**(5,311)**	(5,510)
Other operating expenses		**(74)**	(110)
Operating profit/(loss)		**902**	(919)
Finance costs		**(1,692)**	(2,049)
Loss before taxation	*4*	**(790)**	(2,968)
Taxation	*5*	**–**	–
Loss before minority interests		**(790)**	(2,968)
Minority interests		**–**	–
Loss attributable to shareholders		**(790)**	(2,968)
Loss per share – Basic	*6*	**US (0.01) cents**	US (0.05) cents
Loss per share – Diluted	*6*	**N/A**	N/A

CONSOLIDATED BALANCE SHEET – UNAUDITED

	Note	**30th June, 2004** *US$'000* **(Unaudited)**	31st December, 2003 *US$'000* (Audited)
Non-current assets			
Property, plant and equipment	*7*	**98,915**	103,359
Deferred tax assets		**11,797**	11,797
Total non-current assets		**110,712**	115,156
Current assets			
Inventories		**17,999**	18,638
Trade receivables	*8*	**16,973**	14,362
Prepayments and other receivables		**3,124**	5,324
Cash and bank balances		**1,807**	2,401
Total current assets		**39,903**	40,725
Current liabilities			
Trade payables	*9*	**(17,348)**	(20,323)
Accruals and other payables		**(7,940)**	(8,629)
Taxes payable		**(1,884)**	(1,884)
Short-term bank loans		**(12,849)**	(12,180)
Long term bank loans – current portion	*10*	**(3,405)**	(11,887)
Total current liabilities		**(43,426)**	(54,903)
Net current liabilities		**(3,523)**	(14,178)
Total assets less current liabilities		**107,189**	100,978
Non-current liabilities			
Long term bank loans, less current portion	*10*	**(61,718)**	(54,610)
Obligations under finance leases		**(59)**	(159)
Deferred tax liabilities		**(10,617)**	(10,617)
Total non-current liabilities		**(72,394)**	(65,386)
Minority interests		**(1,000)**	(1,000)
NET ASSETS		**33,795**	34,592
CAPITAL AND RESERVES			
Share capital	*11*	**18,037**	18,037
Reserves		**15,758**	16,555
Shareholders' equity		**33,795**	34,592

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS – UNAUDITED

	For the six months ended 30th June, 2004 US$'000 (Unaudited)	2003 US$'000 (Unaudited)
Net cash inflow from operating activities	**2,481**	827
Returns on investments and servicing of finance	**(1,690)**	(2,046)
Taxation paid	**–**	–
Net cash outflow from investing activities	**(456)**	(1,157)
Net cash inflow (outflow) before financing	**335**	(2,376)
Net cash (outflow) inflow from financing	**(915)**	1,924
Decrease in cash and cash equivalents	**(580)**	(452)
Effect of foreign exchange rate changes	**(14)**	68
Cash and cash equivalents, beginning of period	**2,401**	1,243
Cash and cash equivalents, end of period	**1,807**	859
Analysis of cash and cash equivalents:		
Cash and bank balances	**1,807**	859

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Share capital *US$'000* (Unaudited)	**Share premium** *US$'000* (Unaudited)	**Cumulative translation adjustments** *US$'000* (Unaudited)	**Contributed Surplus** *US$'000* (Unaudited)	**Accumulated losses** *US$'000* (Unaudited)	**Total** *US$'000* (Unaudited)
Balance at 1st January, 2004	18,037	90,652	(3,823)	7,814	(78,088)	34,592
Loss for the period	–	–	–	–	(790)	(790)
Translation adjustments	–	–	(7)	–	–	(7)
Balance at 30th June, 2004	18,037	90,652	(3,830)	7,814	(78,878)	33,795
As at 1st January, 2003, as previously reported	18,037	90,652	(3,882)	7,814	(71,448)	41,173
Changes in accounting policies						
– Provide for net deferred tax assets	–	–	–	–	1,516	1,516
As at 1st January, 2003, as restated	18,037	90,652	(3,882)	7,814	(69,932)	42,689
Loss for the period	–	–	–	–	(2,968)	(2,968)
Translation adjustments	–	–	(3)	–	–	(3)
Balance at 30th June, 2003	18,037	90,652	(3,885)	7,814	(72,900)	39,718

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, 2003.

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

2. BASIS OF PRESENTATION

As at 30th June, 2004, the Group has net current liabilities of approximately US$3,523,000 (US$14,178,000 as at 31st December, 2003) and outstanding bank loans of approximately US$77,972,000 (US$78,677,000 as at 31st December, 2003) of which approximately US$16,254,000 (US$24,067,000 as at 31st December, 2003) 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, rationalizing costs and enhancing operating results. In the opinion of the directors, these measures have improved and will continue to improve the Group's working capital and debt maturity profile. Furthermore, the directors consider that the Group will be able to obtain ongoing support from its bankers and generate sufficient cashflows from future operations to cover its operating costs and to meet its financing commitments. 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, assuming the performance of the business is in line with the directors' expectation, 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 operations:

	For the six months ended 30th June, 2004					
	The PRC *US$'000* (Unaudited)	**Hong Kong** *US$'000* (Unaudited)	**Singapore** *US$'000* (Unaudited)	**Malaysia** *US$'000* (Unaudited)	**Elimination** *US$'000* (Unaudited)	**Consolidated** *US$'000* (Unaudited)
Turnover						
– External	25,148	1,095	–	49,393	–	75,636
– Inter-segment	–	–	–	117	(117)	–
Total turnover	25,148	1,095	–	49,510	(117)	75,636
Result						
Segment result	491	(42)	(117)	1,158		1,490
Unallocated corporate expenses						(588)
Operating profit						902
Finance costs						(1,692)
Taxation						–
Loss before minority interests						(790)
Assets						
Segment assets	44,240	1,032	9,554	196,185	(100,483)	150,528
Unallocated corporate assets						87
						150,615
Liabilities						
Segment liabilities	115,269	145	8,184	89,547	(100,483)	112,662
Unallocated corporate liabilities						3,158
						115,820
Other information						
Capital expenditures	93	–	3	360	–	456
Unallocated capital expenditures						–
						456
Depreciation	824	3	266	3,761	–	4,854
Unallocated depreciation						–
						4,854

3. **SEGMENTAL INFORMATION** *(Continued)*

Primary segment by geographical locations of operations:

	For the six months ended 30th June, 2003					
	The PRC *US$'000* (Unaudited)	Hong Kong *US$'000* (Unaudited)	Singapore *US$'000* (Unaudited)	Malaysia *US$'000* (Unaudited)	Elimination *US$'000* (Unaudited)	Consolidated *US$'000* (Unaudited)
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

Secondary segment by products:

	For the six months ended 30th June,							
	2004				2003			
	Turnover ***US$'000*** **(Unaudited)**	**Operating profit (loss)** ***US$'000*** **(Unaudited)**	**Assets** ***US$'000*** **(Unaudited)**	**Capital expenditures** ***US$'000*** **(Unaudited)**	Turnover *US$'000* (Unaudited)	Operating profit (loss) *US$'000* (Unaudited)	Assets *US$'000* (Unaudited)	Capital expenditures *US$'000* (Unaudited)
Moisture resistant plywood	**14,700**	**83**	**37,302**	**138**	12,962	102	36,883	374
Structural	**17,745**	**676**	**30,164**	**75**	14,444	141	34,369	102
Flooring	**19,680**	**1,013**	**27,228**	**101**	19,166	395	39,881	465
Weather and boil proof plywood	**13,583**	**30**	**25,365**	**94**	6,310	89	21,435	218
Jamb and mouldings	**8,672**	**321**	**12,667**	**34**	10,607	527	16,611	54
Veneer	**693**	**(27)**	**1,776**	**7**	535	(46)	788	6
Others	**563**	**37**	**1,392**	**4**	174	14	812	2
Unallocated	**–**	**(1,231)**	**14,721**	**3**	–	(2,141)	16,679	1
Total	**75,636**	**902**	**150,615**	**456**	64,198	(919)	167,458	1,222

3. SEGMENTAL INFORMATION *(Continued)*

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

	For the six months ended 30th June,	
	2004	2003
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Japan	**28,396**	23,303
The People's Republic of China	**20,557**	16,073
Europe	**11,558**	4,914
North America	**9,075**	10,062
South East Asia	**3,919**	3,427
Korea	**207**	3,493
Others	**1,924**	2,926
Total Turnover	**75,636**	64,198

4. LOSS BEFORE TAXATION

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

	For the six months ended 30th June,	
	2004	2003
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
After charging:–		
Depreciation of property, plant and equipment	**4,854**	4,901
Interest expense on		
– Bank overdrafts and loans	**1,529**	1,870
– Finance lease	**15**	12
– Others	**148**	167
Staff costs		
– Wages and salaries	**1,545**	1,537
– Pension costs	**183**	179
After crediting:–		
Rental income	**71**	75

5. TAXATION

Hong Kong profits tax was provided at the rate of 17.5% (2003 – 17.5%) 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.

6. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately US$790,000 (2003 – US$2,968,000) and on the weighted average number of 5,580,897,243 shares (2003 – 5,580,897,243 shares) in issue during the period.

No diluted loss per share for the six months ended 30th June, 2004 and 30th June, 2003 are presented as the dilutive potential ordinary shares were anti-dilutive.

7. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment were:

	For the six months ended 30th June, 2004 *US$'000* **(Unaudited)**
Cost	
Beginning of period	**183,376**
Additions	**456**
Disposals	**(2)**
Exchange adjustments	**(85)**
End of period	**183,745**
Accumulated depreciation	
Beginning of period	**66,170**
Provision for the period	**4,854**
Disposals	**(2)**
Exchange adjustments	**(9)**
End of period	**71,013**
Accumulated impairment loss	
Beginning of period	**13,847**
Provision for the period	**–**
Disposals	**–**
Exchange adjustments	**(30)**
End of period	**13,817**
Net Book Value	
End of period	**98,915**
Beginning of period	**103,359**

8. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	30th June, 2004 *US$'000* **(Unaudited)**	31st December, 2003 *US$'000* (Audited)
0-30 days	**9,108**	7,661
31-60 days	**3,278**	2,772
61-90 days	**1,849**	570
91-180 days	**578**	408
181-360 days	**1,453**	1,027
Over 360 days	**3,850**	5,070
	20,116	17,508
Less: Provision for doubtful receivables	**(3,143)**	(3,146)
	16,973	14,362

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, 2004	31st December, 2003
	US$'000	*US$'000*
	(Unaudited)	(Audited)
0-30 days	**7,787**	8,156
31-60 days	**3,831**	4,909
61-90 days	**2,847**	2,918
91-180 days	**1,549**	2,863
181-360 days	**950**	777
Over 360 days	**384**	700
	17,348	20,323

10. LONG TERM BANK LOANS

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

	30th June, 2004	31st December, 2003
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Bank loans repayable within a period		
– not exceeding one year	**3,405**	11,887
– more than one year but not exceeding two years	**3,121**	17,886
– more than two years but not exceeding five years	**15,303**	32,084
– beyond five years	**43,294**	4,640
	65,123	66,497
Less: Amount due within one year included in current liabilities	**(3,405)**	(11,887)
	61,718	54,610

The bank loans bore interest at commercial banking rates ranging from 3.17% to 8.00% (2003 – 3.61% to 9.00%) per annum and were 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, 2004		31st December, 2003	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***US$'000***	*'000*	*US$'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
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$67,874,000 (US$69,090,000 as at 31st December, 2003) 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, 2004 *US$'000* **(Unaudited)**	31st December, 2003 *US$'000* (Audited)
Discounted bills with recourse	**179**	2,577

14. COMMITMENTS

a. Operating lease commitments

As at 30th June, 2004, the Group had total future aggregate minimum lease payments in respect of land and building under non-cancellable operating lease as follows:

	30th June, 2004 *US$'000* **(Unaudited)**	31st December, 2003 *US$'000* (Audited)
– within one year	**121**	205
– within two to five years	**260**	260
– beyond five years	**899**	932
	1,280	1,397

b. Other commitments

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

	30th June, 2004 *US$'000* **(Unaudited)**	31st December, 2003 *US$'000* (Audited)
Payable during the following period:		
– within one year	**500**	492
– within two to five years	**2,035**	2,020
– beyond five years	**3,203**	3,468
	5,738	5,980

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

The continuing improvement in the world economy especially in Japan, Europe and North America has bolstered the industry in the first half of 2004. Being one of the leaders in the industry, the Group was among the first batch of companies to benefit from these favorable conditions and showed an improvement in sales performance. For the period ended 30th June, 2004, turnover of the Group was US$75.6 million, increased by 17.76%, as compared with US$ 64.2 million in the same period last year.

The better worldwide economy, however, has also brought with it increases in costs of logs and crude oil related products and services like glue and freighting, therefore, putting pressure on the Group's gross margin leading to but slight increase of 3.28%. Nevertheless, with an experienced management team implementing effective cost control measures and securing maximum economies of scale, the Group was able to narrow the net loss attributed to shareholders by 73.38% to US$0.8 million.

During the period under review, the log price increased by 10% to 15% from end of last year with demand rising as the world economy continued to improve. The curtailing of export of logs by the Indonesian and Malaysian authorities in the bid to weed out illegal and unauthorized harvesting did not help either.

To tackle the high material cost, the Group continued to optimize on attainable capacity, improve recovery, and maximize the utilization of log waste which together lowered the overall costs. The present log recovery rate is about 53.50% which is better than last year's. The higher log recovery rate helped mitigate the escalating log prices.

Currently, the Group's product mix includes 2.4 mm plywood, MR plywood, WBP plywood, structural plywood, LVL, LVS, LVB, flooring, mouldings and building materials. Flooring products had the highest profit margin. During the period under review, the Group's plants ran at slightly over 90% capacity.

The PRC continued to be a major growth market of the Group. The impact of the austerity measures to avert the overheated China economy has been minimal on the Group, as those measures targeted mainly new real estate developments and heavy building materials industries. The Group's major products mainly flooring sold to the PRC are either for completed real estate projects or are more trade sensitive. On the other hand, due to the strong performance of the property sector in the PRC, the Group's colour flooring products continued to receive encouragingly good response, where sales volume had increased by 8 times compared with the previous period. The sales of plywood-based flooring in the PRC also improved substantially compared with the corresponding period last year, proving that the immense development potential of the PRC market for the Group.

The Japan market was less volatile during the period under review due to its improved economic fundamentals and the Group's strengths in complying with Japan's stringent standards and guaranteeing on-time delivery. Japan remained as one of the Group's major markets. The recovery of the US economy benefited the Group in terms of volume and prices on jamb and mouldings product group. However, the significant increase in US freight rates and log prices offset the overall gross margin. The Group also expanded its markets securing new clients in South-East Asia and Europe. Although these clients are not very significant to its overall performance, the Group will diligently observe developments in these and other markets to seek additional potential business opportunities.

During the period, the Group continuously improved and built on stronger trade relationships with its major strategic business partners and was in search of more collaborative markets/major alliances. The data collected from the Group's distribution and sales business has enabled the Group's marketing team to grasp the latest market trends for planning and implementing appropriate marketing strategies that allowed the Group to stay ahead of its competitors.

OUTLOOK

It is expected that log price will increase further especially when the monsoon or rainy season coincides with the fourth quarter, making the harvesting of logs difficult. The Group will try to stabilize supply to ensure availability, continue to improve recovery, maintain consistent product quality and provide excellent customer service so as to sustain and enhance performance.

Going forward, since the demand for plywood depends very much on the pace and magnitude of the global economic recovery especially in America, Europe and Japan, the Group has to watch closely all the factors affecting the well-being of these economies which have recently shown some weaknesses and respond accordingly. Those factors include adjustments of the US interest rates, the threat of oil price hikes, the recent heightened terrorism alert and the impact of the latest macroeconomic control measures implemented by the Chinese government.

In the longer term, the China economy will continue to expand presenting huge market potential for the Group. Besides continuing to focus on developing the China market, the Group will not let up on growing the Japan market, which has been its traditional base with customers willing to pay premium price for quality products that meet their stringent standards.

The Group will continue to capitalise and build on the strong trade relationships it has with its existing strategic business partners in traditional markets. It will also concentrate on existing collaborative market/product developments, so as to further strengthen its products and their market positioning.

The Group will also strive to improve product quality, cost, material recovery and its customer service, and consolidate further its existing capacity and resources. It will also seize opportunities to expand its markets and products so as to grow its business. Through maximizing productivity and optimizing its product mix, the Group aims to enhance performance and create value for its shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June, 2004, net current liabilities was approximately US$3.5 million, compared to US$14.2 million as at 31st December, 2003, representing a decrease in net current liabilities of US$10.7 million. The decrease is mainly attributable to the successful rescheduling of certain bank loans and the relevant portion was accordingly reclassified from current liabilities to non-current liabilities.

Capital structure

Bank borrowings of the Group are mainly denominated in United States Dollars, Malaysian Ringgits and Renminbi. Except for the foreign exchange exposure in relation to the loans in Singapore Dollars, equivalent to approximately US$7.0 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, 2004.

Employees

As at 30th June, 2004, the Group had 5,400 staff, 3,559 of whom worked at the Manuply manufacturing plant in Bintulu, Sarawak, Malaysia and 1,793 at facilities in Dalian and Changchun, 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$86.3 million, floating charges on certain inventories of approximately US$11.3 million, trade receivables of approximately US$2.4 million, bank balances of approximately US$0.2 million, corporate guarantees given by the Company 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, 2004 was approximately US$33.8 million, compared to US$34.6 million as at 31st December, 2003. Total bank borrowings of the Group was approximately US$78.0 million and the gearing ratio (total bank borrowing to total net assets) was accordingly 231% comparing to 227% as at 31st December, 2003.

Foreign exchange exposures

Major functional currencies of the Group are United States Dollars, Malaysian 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, 2004, the Group's contingent liabilities were approximately US$0.2 million, representing discounted bills with recourse.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30th June, 2004, 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	
Yu Chien Te	Beneficial owner	Personal interest	58,873,200	1.05%

* *As at 30th June, 2004, SMI International Limited ("SIL") held 1,974,720,000 shares (2003 – 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 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, 2004.

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 share options granted and held by the Company's Directors as at 30th June, 2004 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	Cancelled 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	–	–	8,000,000	16,500,000
Others	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	47,000,000	–	–	–	47,000,000
				231,300,000	–	–	8,000,000	223,300,000

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 DISCLOSEABLE UNDER THE SFO

Name	Nature of interests	Number of Shares Held	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%

\# *449,245,000 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, 2004, 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, 2004, 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 of Hong Kong Limited. The Audit Committee comprises three independent non-executive Directors.

The Unaudited Financial Statements for the six months ended 30th June, 2004 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 terms 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, 2004, in compliance with the Code of Best Practice contained in Appendix 14 of the Listing Rules.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors of the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the six months ended 30th June, 2004.

By Order of the Board
Budiono Widodo
Chairman

Hong Kong, 16th September, 2004