05

PacMOS

PacMOS Technologies Holdings Limited | Interim Report 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2005

	Note	Unaudited Six months ended 30th June 2005 HK$'000	2004 HK$'000
Turnover	4	74,058	76,703
Cost of sales		(62,961)	(49,545)
Gross profit		11,097	27,158
Other revenues		318	650
Distribution costs		(1,761)	(1,958)
General and administrative expenses		(13,227)	(9,560)
Other operating income/(expenses)		6,967	(75,244)
Profit/(loss) from operations	5	3,394	(58,954)
Finance costs		(325)	(551)
Profit/(loss) before taxation		3,069	(59,505)
Taxation	6	(68)	(1,993)
Profit/(loss) for the period		3,001	(61,498)
Attributable to:			
Equity holders of the Company		2,842	(66,679)
Minority interest		159	5,181
		3,001	(61,498)
Basic earnings/(loss) per share	7	0.84 cents	(19.8 cents)
Diluted earnings/(loss) per share	7	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2005

	Note	30th June 2005 HK$'000	31st December 2004 HK$'000
Non-current assets			
Investment property	8	—	52,000
Other fixed assets	8	5,095	5,221
Intangible assets	8	972	889
Long-term deposits		741	726
		6,808	58,836
Current assets			
Inventories		26,952	43,879
Accounts receivable	9	18,002	19,194
Prepayments, deposits and other receivables		6,907	2,834
Financial assets at fair value through profit or loss		200,461	—
Other investments		—	199,203
Pledged deposits		247	2,392
Cash and cash equivalents		73,612	59,097
		326,181	326,599
Current liabilities			
Accounts payable and accruals	10	24,944	30,739
Current portion of long-term bank loans		—	4,200
Short-term bank loans		—	19,500
Amounts due to related companies	12	1,312	1,434
Taxation payable		231	1,748
		26,487	57,621
Net current assets		299,694	268,978
Total assets less current liabilities		306,502	327,814
Non-current liabilities			
Long-term bank loans		—	26,250
Deferred taxation		1,300	1,300
		1,300	27,550
		305,202	300,264

	Note	30th June 2005 HK$'000	31st December 2004 HK$'000
Capital and reserves			
Share capital	*11*	33,659	33,659
Reserves		226,279	222,413
Shareholders' funds		259,938	256,072
Minority interest		45,264	44,192
		305,202	300,264

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2005

	Unaudited					
	Attributable to shareholders					
	Share capital	Share premium	Exchange reserve	Retained earnings	Minority interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2005, as previous reported	33,659	101,263	1	121,149	—	256,072
Adoption of HKAS 1	—	—	—	—	44,192	44,192
At 1st January 2005, as restated	33,659	101,263	1	121,149	44,192	300,264
Currency translation differences	—	—	1,024	—	913	1,937
Profit for the period	—	—	—	2,842	159	3,001
At 30th June 2005	33,659	101,263	1,025	123,991	45,264	305,202
At 1st January 2004, as previous reported	33,659	101,263	(2,793)	212,537	—	344,666
Adoption of HKAS 1	—	—	—	—	36,179	36,179
At 1st January 2004, as restated	33,659	101,263	(2,793)	212,537	36,179	380,845
Currency translation differences	—	—	1,023	—	904	1,927
Loss for the period	—	—	—	(66,679)	5,181	(61,498)
At 30th June 2004	33,659	101,263	(1,770)	145,858	42,264	321,274

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2005

	Unaudited Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Net cash generated from operating activities	4,045	17,653
Net cash generated from investing activities	58,505	80
Net cash used in financing activities	(49,950)	(2,651)
Increase in cash and cash equivalents	12,600	15,082
Cash and cash equivalents at 1st January	59,097	70,260
Effect of foreign exchange rate changes	1,915	1,472
Cash and cash equivalents at 30th June	73,612	86,814

NOTES TO CONDENSED ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. These condensed interim accounts should be read in conjunction with the 2004 annual report.

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 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

These interim accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these accounts. The HKFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim accounts.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

(i) *Effect of adopting new HKFRS*

In 2005, the Group adopted the following new/revised standards of HKFRS below which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS Int 15	Operating Leases — Incentives
HKAS Int 21	Income Taxes — Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 33 and Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interests and other disclosures.
— HKASs 2, 7, 8, 10, 16, 23, 27, 33 and Int 15 have no material effect on the Group's accounting policies.
— HKAS 21 has no material effect on the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance of the revised standard.
— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

(a) *HKAS 32: Financial Instruments: Disclosure and Presentation*
HKAS 39: Financial Instruments: Recognition and Measurement

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy relating to the classification of financial assets at fair value through profit or loss.

(b) *HKAS 36: Impairment of Assets*
HKAS 38: Intangible Assets
HKFRS 3: Business Combinations

The adoption of HKAS 36, HKAS 38 and HKFRS 3 has resulted in a change in the accounting policy for goodwill and other intangible assets.

(i) Goodwill

In prior years, goodwill was amortised on a straight-line basis over a period of 5 years. Assessment for impairment was only performed when there were indications that goodwill was impaired. In accordance with HKAS 38, goodwill should not be subject to amortisation and should be tested for impairment at least annually, irrespective of whether any indications of impairment exist.

The Group's goodwill had been fully amortised and impaired as at 31st December 2004. The Group ceased amortisation of goodwill from 1st January 2005 and accumulated amortisation and impairment losses as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill.

(ii) Other intangible assets

The Group has reassessed the useful lives of its intangible assets in accordance with the requirements under HKAS 38. No adjustment resulted from the reassessment.

(c) HKAS 40: Investment Property

The adoption of HKAS 40 has resulted in a change in the accounting policy for the Group's investment property. Previously, investment properties were stated at open market values at the end of each financial year. Changes in the values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, the excess of the deficit was charged to the profit and loss account. Any subsequent revaluation surplus was credited to the profit and loss account to the extent of the deficit previously charged. Following the adoption of HKAS 40, all changes in valuation of the investment properties would be recognised in the profit and loss account.

The adoption of HKAS 40 has no impact on these interim accounts because the Group's investment property was in a net revaluation deficit position as at 31st December 2004 and the investment property was disposed of during the six months period ended 30th June 2005.

(d) *HKAS Int 21: Income Taxes — Recovery of Revalued Non-Depreciated Assets*

The adoption of HKAS Int 21 has resulted in a change in accounting policy relating to the measurement of deferred tax arising from the revaluation of investment properties. Prior to this, such deferred tax were measured on the basis of tax consequences that would follow from recovery of the carrying amount of the investment properties through sale. Following the adoption of HKAS Int 21, deferred tax arising from the revaluation of investment properties are measured on the basis of tax consequences that would follow from recovery of the carrying amount of the properties through use.

The adoption of HKAS Int 21 has no impact on these interim accounts because the Group's investment property had a net revaluation deficit position as at 31st December 2004 and the respective deferred tax liability has been fully recognised as at 31st December 2004.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations.
— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.
— HKFRS 3 — prospectively after 1st January 2005.

(ii) Summary of restatements made in the interim accounts

Consolidated Balance Sheet as at 1st January 2005

	Other investments *HK$'000*	Financial assets at fair value through profit or loss *HK$'000*
As previously reported	199,203	—
Effect of adopting HKAS 32 & 39	(199,203)	199,203
As restated	—	199,203

3. Discontinued operations

Wellba Investment Limited, a wholly owned subsidiary of the Company, had disposed of the investment property situated at 18 Lee Chung Street, Chai Wan, Hong Kong (the "Property"), to an independent third party at a total cash consideration of HK$51,700,000. The completion date for the disposal of the Property was on 10th March 2005.

The operating results of the investment property holding segment are reported in the accounts as a discontinued operation.

4. Segment information

The Group is primarily engaged in (i) the design and distribution of integrated circuits and semi-conductor parts, (ii) investments holding and (iii) property rental.

(a) Primary reporting format — business segments

	For the six-month ended 30th June 2005 (Unaudited)			
	Continuing operations		Discontinued operations	
	Design and distribution of integrated circuits and semi-conductor parts *HK$'000*	Investments holding *HK$'000*	Property rental *HK$'000*	Total *HK$'000*
Segment revenues	73,332	—	726	74,058
Segment results	(2,067)	5,733	(272)	3,394
Finance costs				(325)
Profit before taxation				3,069
Taxation				(68)
Profit for the period				3,001
Segment assets	122,016	209,340	1,515	332,871
Unallocated assets				118
Total assets				332,989
Segment liabilities	23,997	559	523	25,079
Unallocated liabilities				2,708
Total liabilities				27,787

	For the six-month ended 30th June 2004 (Unaudited)			
	Continuing operations		Discontinued operations	
	Design and distribution of integrated circuits and semi-conductor parts	Investments holding	Property rental	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues	74,798	—	1,905	76,703
Segment results	15,760	(76,018)	974	(59,284)
Unallocated income				330
Finance costs				(551)
Loss before taxation				(59,505)
Taxation				(1,993)
Loss for the period				(61,498)
Segment assets	128,127	228,073	54,819	411,019
Unallocated assets				7,983
Total assets				419,002
Segment liabilities	41,894	1,073	1,601	44,568
Unallocated liabilities				53,160
Total liabilities				97,728

(b) Secondary reporting format — geographical segments

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

	Turnover Unaudited Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong	**726**	1,905
Taiwan	**70,709**	70,904
The People's Republic of China (the "PRC")	**2,623**	3,894
	74,058	76,703

	Contribution to profit/(loss) from operations Unaudited Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong	**726**	1,905
Taiwan	**9,332**	22,792
The PRC	**1,039**	2,461
Gross profit	**11,097**	27,158
Other revenue	**318**	650
Expenses, net	**(8,021)**	(86,762)
	3,394	(58,954)

5. Profit/(loss) from operations

Profit/(loss) from operations is arrived at after charging/(crediting):

	Unaudited Six months ended 30th June 2005 HK$'000	2004 HK$'000
Fair value gains on financial assets at fair value through profit or loss	(7,220)	—
Unrealised loss on other investments	—	75,574
Loss on disposal of an investment property	300	—
Depreciation of fixed assets	1,549	2,170
Amortisation of intangible assets	166	1,254

6. Taxation

The Company is exempt from taxation in Bermuda. No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the period. 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.

The amount of taxation charged to income statement represents:

	Unaudited Six months ended 30th June 2005 HK$'000	2004 HK$'000
Hong Kong profits tax		
— under provision in previous year	—	15
Overseas taxation		
— current period	68	1,939
— over provision in previous year	—	(51)
Deferred taxation		
— relating to taxable temporary differences	—	90
	68	1,993

7. Earnings per share

The calculation of basic earnings per share for the six months ended 30th June 2005 is based on the consolidated net profit attributable to shareholders of approximately HK$2,842,000 (2004: loss of HK$66,679,000) and 336,587,142 (2004: 336,587,142) shares in issue during the period.

Diluted earnings per share for the six months ended 30th June 2005 was not presented as there was no dilution effect on the earnings per share.

8. Capital expenditure

	Goodwill	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Investment property	Intangible assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net book value or valuation							
At 1st January 2005	—	14	988	4,219	52,000	889	58,110
Additions	—	492	822	15	—	232	1,561
Amortisation/depreciation	—	(19)	(224)	(1,306)	—	(166)	(1,715)
Disposals	—	—	—	—	(52,000)	—	(52,000)
Exchange differences	—	—	6	88	—	17	111
At 30th June 2005	—	487	1,592	3,016	—	972	6,067
At 1st January 2004	3,854	—	1,920	8,252	52,000	2,643	68,669
Additions	—	—	83	16	—	—	99
Amortisation/depreciation	(47)	—	(201)	(1,969)	—	(1,207)	(3,424)
Exchange differences	—	—	74	127	—	25	226
At 30th June 2004	3,807	—	1,876	6,426	52,000	1,461	65,570
Additions	—	14	189	439	—	830	1,472
Amortisation/depreciation	(309)	—	(231)	(1,922)	—	(1,053)	(3,515)
Impairment	(3,498)	—	—	—	—	(377)	(3,875)
Disposals	—	—	(838)	(899)	—	—	(1,737)
Exchange differences	—	—	(8)	175	—	28	195
At 31st December 2004	—	14	988	4,219	52,000	889	58,110

9. Accounts receivable

	30th June 2005 HK$'000	31st December 2004 HK$'000
Accounts receivable	18,013	19,195
Less: Provision for impairment of receivables	(11)	(1)
	18,002	19,194

Aging analysis of accounts receivable was as follows:

	30th June 2005 HK$'000	31st December 2004 HK$'000
0 — 90 days	17,992	19,194
91 — 180 days	21	1
	18,013	19,195

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

10. Accounts payable and accruals

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

	30th June 2005 *HK$'000*	31st December 2004 *HK$'000*
Accounts payable	**16,839**	20,996
Accrued charges and other payables	**8,105**	9,743
	24,944	30,739

Aging analysis of accounts payable was as follows:

	30th June 2005 *HK$'000*	31st December 2004 *HK$'000*
0 — 90 days	**16,839**	20,996

11. Share capital

	No. of shares	*HK$'000*
Authorised:		
At 1st January 2005 and 30th June 2005		
Ordinary shares of HK$0.1 each	500,000,000	50,000
Issued and fully paid:		
At 1st January 2005 and 30th June 2005		
Ordinary shares of HK$0.1 each	336,587,142	33,659

12. 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.

(a) The Group's significant transactions with related companies in the current period were set out below:

		Unaudited Six months ended 30th June 2005 HK$'000	2004 HK$'000
Rental income from			
— Fong Wing Shing Construction Company Limited ("Fong Wing Shing")	*(i)*	**46**	162
— PCL Holdings Limited ("PCL")	*(i)*	**97**	591
Manufacturing service fees payable to Mosel Vitelic Inc. ("MVI")	*(ii)*	**911**	1,044
Rental payable to MVI	*(iii)*	**424**	381
Management fees payable to MVI	*(iii)*	**374**	354
Information system service fees payable to MVI	*(iv)*	**222**	210

(i) The rental was charged to related companies under normal commercial terms based on the floor area occupied. The Director of the Company, Mr. Yip Chi Hung, is in a position to exercise significant influence over these companies.

(ii) MVI is an indirect substantial shareholder of the Company. The manufacturing service fees were charged on normal commercial terms and in the ordinary and usual course of business of the Company.

(iii) The rental and management fees payable to MVI were charged on normal commercial terms by reference to open market rental as appraised by an independent valuer for comparable premises.

(iv) The information system service fee was charged at a monthly fixed amount of approximately HK$37,000 (2004: HK$35,000).

(b) Amounts due to related companies as at 30th June 2005 were as follows:

	30th June 2005 *HK$'000*	31st December 2004 *HK$'000*
Fong Wing Shing	**46**	46
PCL	**100**	98
MVI	**1,166**	1,290
	1,312	1,434

Balances with related companies were all unsecured, interest free and have no fixed term of repayment.

13. Commitments

Operating lease commitments

At 30th June 2005, the total future minimum lease payments payable under non-cancellable operating leases were as follows:

	30th June 2005 *HK$'000*	31st December 2004 *HK$'000*
Total future minimum lease payments payable:		
— Not later than 1 year	2,224	1,633
— Later than 1 year and not later than 5 years	2,203	153
	4,427	1,786

As at 30th June 2005, the total future minimum lease payments receivable under non-cancellable operating leases were as follows:

	30th June 2005 HK$'000	31st December 2004 HK$'000
Total future minimum lease payments receivable:		
— Not later than 1 year	—	687

RESULTS

For the six months ended 30th June 2005, the Group recorded a net profit attributable to equity holders of approximately HK$2.8 million as compared to a loss of approximately HK$66.7 million for the corresponding period last year.

The Group achieved a turnover of approximately HK$74.0 million as compared to approximately HK$76.7 million for the corresponding period last year.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

a. Business Review

Design and distribution of integrated circuits and semi-conductor parts

This segment contributed the bulk of turnover of the Group. It achieved a turnover of approximately HK$73.3 million for the six months ended 30th June 2005, as compared to that of approximately HK$74.8 million for the same period last year. Due to limited production capacities of foundries to meet strong market demand, there had been sharp increases in wafer prices. Such increase in wafer prices was reflected in the cost of sales. For the period under review, while the turnover remained stable, the cost of sales increased quite significantly. The gross profit of this segment was reduced to approximately HK$10.4 million as compared to that of approximately HK$25.3 million for the corresponding period last year. The gross profit margin of this segment was reduced to approximately 14% as compared to that of approximately 34% for the corresponding period last year. This segment recorded a loss from operation of approximately HK$2.1 million for the period under review.

Investments holding

The Group's investment in ChipMOS Technologies (Bermuda) Limited ("ChipMOS"), which is listed in NASDAQ, recorded a fair value gain of approximately HK$7.2 million as compared to an unrealised loss of approximately HK$75.6 for the same period last year. During the six months ended 30th June 2005, the Group sold 120,000 shares of ChipMOS in the NASDAQ market with an average price of approximately US$6.4 per share.

The quoted market price of ChipMOS as at 30th June 2005 was US$6.61 and that as at 21st September 2005 was US$6.53.

Property rental

The investment property situated at 18 Lee Chung Street, Chai Wan, Hong Kong was disposed to an independent third party in November 2004 at a cash consideration of HK$51.7 million. The transaction was completed on 10th March 2005. The rental income obtained up to 10th March 2005 was approximately HK$0.7 million.

b. Liquidity and Financial Resources

During the period under review, the Group recorded a net cash inflow from operating activities of approximately HK$4.0 million. Disposal of investment property and realisation of ChipMOS shares generated a further cash inflow of approximately HK$58.4 million, in which approximately HK$50.0 million was applied to repay outstanding bank loans.

The cash and cash equivalents of the Group as at 30th June 2005 was approximately HK$73.6 million.

c. Capital Structure

There was no change in share capital of the Company for the period under review. The profit for the period was transferred to reserves. Total shareholders' funds as at 30th June 2005 was approximately HK$259.9 million.

d. Gearing Ratio

The gearing ratio of the Group, as defined as total liabilities (excluding capital, reserves and minority interest) expressed as percentage of total assets, was approximately 8.3% (31st December 2004: approximately 22.1%).

The reduction in gearing ratio was mainly attributable to repayment of all outstanding bank loans during the period under review.

e. Foreign Currency Exposure

The Group did not expose to material exchange risks. An exchange adjustment of approximately HK$1.0 million, due to translation of accounts of overseas subsidiaries, was credited to exchange reserves.

f. Investments and Capital Assets

No material purchase of capital assets was made during the period under review. The disposal of the Group's investment property in Hong Kong was completed on 10th March 2005. A loss on disposal of HK$0.3 million was charged to income statement.

g. Charge on Assets

The Group's investment property in Hong Kong was mortgaged to a bank to secure a ten-year term loan. The outstanding loan balance of approximately HK$30.5 million was fully repaid on 10th March 2005 upon completion of the disposal of the investment property.

h. Human Resources

There was no material change on the staff headcount for the period under review. The number of staff of the Group was approximately 70.

i. Contingent Liabilities

The Group did not have any material contingent liabilities as at 30th June 2005.

j. Future Plans and Prospects

Looking ahead, the management will continue to focus on its main business of integrated circuit design and distribution in the Greater China region. With the wafer costs having been back to normal in the past few months, the management expects that the Group will achieve better results in the second half of the year.

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 2005.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2005, 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:

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

Save as disclosed above, at no time during the year, the Directors and chief executive (including their spouse and children under 18 years of age) had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SFO.

SUBSTANTIAL SHAREHOLDERS' INTEREST OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30th June 2005, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

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%

CORPORATE GOVERNANCE

During the six months ended 30th June 2005, the Board believed that the Company was in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited except the following:

1. the Chairman of the Board is not subject to retirement by rotation pursuant to the bye-laws of the Company;

2. the Independent Non-executive Directors were not appointed for specific terms but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-laws of the Company;

3. the Directors may not retire by rotation at least once every three years, however, one-third of all the Directors (except the Chairman or Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire by rotation at the Company's annual general meeting and shall be eligible for re-election in accordance with the bye-laws of the Company;

4. the Board is scheduled to convene a special general meeting around early December 2005 approving the amendment of the bye-laws of the Company in order to ensure the retirement of each Director by rotation at least once every three years in compliance with the Code to the Listing Rules;

5. there is not any Chief Executive Officer in the Company. In view of the Company's composition of the Board (being two Executive Directors and three Independent Non-executive Directors), the Board believes that the present simple structure of the Board enables it to make and implement decisions promptly and efficiently; and

6. the Board is in the process of defining the composition and terms of reference of the Remuneration Committee.

The Board is scheduled to adopt a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code") around early November 2005. During the transitional period, the Company has adopted the Model Code for securities transactions by Directors. All Directors, after specific enquiries by the Company, confirmed they have complied with the required standard set out in the Model Code during the six months ended 30th June 2005.

AUDIT COMMITTEE

The audit committee comprises three Independent Non-executive Directors who together have substantial experience in auditing, business and regulatory affairs.

REVIEW OF ACCOUNTS

The Audit Committee have 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 2005 with the Directors.

On behalf of the Board
Seto Yee Woon, John
Chairman

Hong Kong, 22nd September 2005