SWANK

恒　光　行　實　業　有　限　公　司

Swank International Manufacturing Co., Ltd.

INTERIM REPORT 2001

Group Results

The Board of Directors ("Board") of Swank International Manufacturing Company Limited ("Company") announces the unaudited consolidated interim results of the Company and its subsidiaries ("Group") for the six months ended 30 June 2001.

Financial Highlights

Consolidated loss attributable to shareholders of the Company amounted to HK$13,279,000 compared to loss attributable to shareholders of HK$14,328,000 for the corresponding period in 2000. The unaudited interim financial report of the Group for the six months ended 30 June 2001 is set out as below.

Interim Financial Report

Unaudited Consolidated Profit and Loss Account

	Note	Six months ended 30 June **2001** **(Unaudited)** ***HK$'000***	 2000 (Unaudited) *HK$'000*
Turnover	2	**128,956**	145,029
Cost of sales		**(93,100)**	(105,000)
Gross profit		**35,856**	40,029
Other revenue		**2,938**	3,377
		38,794	43,406
Selling expenses		**(12,159)**	(19,587)
Administrative expenses		**(24,018)**	(24,678)
Other operating expenses	3	**(7,808)**	(283)
Loss from operations		**(5,191)**	(1,142)
Finance cost	7(a)	**(12,394)**	(12,253)
Share of profits/(losses) of associates		**3,521**	(164)
		(14,064)	(13,559)
Disposal of Swank China Retail operations	4	**(287)**	–
Write back of provision for diminution in value of associates	5	**1,667**	–
Provision for diminution in value of associates	6	**–**	(626)
Loss from ordinary activities before taxation	7	**(12,684)**	(14,185)
Taxation	8	**(377)**	(22)
Loss from ordinary activities after taxation		**(13,061)**	(14,207)
Minority interests		**(218)**	(121)
Loss attributable to shareholders		**(13,279)**	(14,328)
Interim dividends		**–**	–
Loss per share			
Basic/diluted	9	**(1.8 cents)**	(2.0 cents)

The notes on pages 5 to 12 form part of this interim financial report.

Unaudited Consolidated Statement of Recognised Gains and Losses

		Six months ended 30 June	
		2001	2000
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Exchange differences on translation of the accounts of overseas subsidiaries		**(226)**	2,022
Net (loss)/gain not recognised in the profit and loss account		**(226)**	2,022
Net loss for the period		**(13,279)**	(14,328)
Exchange gain transferred to the profit and loss account on disposal of Swank China Retail	17	**(424)**	–
Total recognised gains and losses		**(13,929)**	(12,306)
Prior period adjustment arising from the adoption of SSAP 30 adjusted against capital reserve as at 1 January 2000	1b & 17	**–**	751
Prior period adjustment arising from the adoption of SSAP 30 adjusted against accumulated losses as at 1 January 2000	1b & 17	**–**	(751)
Opening balance adjustment arising from the adoption of SSAP 28 adjusted against accumulated losses as at 1 January 2001	1a & 17	**(1,000)**	–

The notes on pages 5 to 12 form part of this interim financial report.

Unaudited Consolidated Balance Sheet

	Note	At 30 June 2001 (Unaudited) *HK$'000*	At 31 December 2000 (Audited) *HK$'000*
Non-current assets			
Fixed assets	10	**156,759**	163,291
Interest in associates		**59,912**	55,832
Amounts due from Hanmy		**1,760**	1,760
		218,431	220,883
Current assets			
Inventories	11	**36,018**	42,412
Debtors, deposits and prepayments	12	**57,635**	60,201
Cash and cash equivalents	13	**11,992**	9,783
		105,645	112,396
Current liabilities			
Bank loans and overdrafts due within one year		**436**	446
Current portion of obligations under finance leases		**–**	227
Creditors and accrued charges	14	**50,806**	49,711
Bills payable		**–**	48
Taxation payable		**832**	836
Amounts due to associates		**13,110**	8,408
		65,184	59,676
Net current assets		**40,461**	52,720
Total assets less current liabilities		**258,892**	273,603
Non-current liabilities			
Bank loans due after one year	15	**250,000**	250,000
Convertible notes		**300,000**	300,000
		550,000	550,000
Minority interests		**46,749**	46,531
NET LIABILITIES		**(337,857)**	(322,928)
CAPITAL AND RESERVES			
Share capital	16	**146,409**	146,409
Reserves	17	**(484,266)**	(469,337)
		(337,857)	(322,928)

The notes on pages 5 to 12 form part of this interim financial report.

Unaudited Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**5,529**	25,033
Net cash outflow from returns on investments and servicing of finance	**(6,389)**	(11,672)
Tax refunded	**–**	2,641
Net cash inflow/(outflow) from investing activities	**3,306**	(1,187)
Net cash inflow before financing	**2,446**	14,815
Net cash outflow from financing	**(227)**	(369)
Increase in cash and cash equivalents	**2,219**	14,446
Cash and cash equivalents at 1 January	**9,337**	17,238
Cash and cash equivalents at 30 June	**11,556**	31,684
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**10,564**	23,633
Deposits with banks maturing within three months	**1,428**	8,498
Bank overdrafts and loans repayable within three months	**(436)**	(447)
	11,556	31,684

The notes on pages 5 to 12 form part of this interim financial report.

Notes on the unaudited interim financial report

1. Basis of preparation

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The unaudited interim financial report has been prepared in accordance with the requirements of Appendix 16 of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The same accounting policies as adopted in the 2000 annual report have been applied to this interim financial report except that the Group has changed certain of its accounting policies following its adoption of the new and revised SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001.

The change to the Group's accounting policies and the significant effect of adopting these new and revised SSAPs are set out below:

(a) SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets"

In prior years, no provision had been made in respect of long service payments required under the Hong Kong Employment Ordinance. As a result of the adoption of SSAP 28, provision for long service payments at 1 January 2001 is estimated at HK$1 million and this amount has been adjusted to the opening balance of accumulated losses for the period. No restatement of other comparative information has been made.

(b) SSAP 30 "Business Combinations"

In prior years, goodwill arising from the acquisition of a subsidiary or an associate was directly eliminated against reserves. As a result of the adoption of SSAP 30, goodwill arising from the acquisition of a subsidiary or an associate is recognised as intangible assets in the consolidated balance sheet and is amortised to the profit and loss account on a straight line basis over its estimated useful life. Any impairment of unamortised goodwill is charged to the profit and loss account at the time when such impairment is identified.

The Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 and goodwill previously eliminated against reserves is not restated. The directors consider that goodwill previously eliminated against reserves had been fully impaired as at 1 January 2000. Accordingly, this change in accounting policy does not have any impact on the Group's loss for the current or prior period and net liabilities as at the current or prior period end. Accumulated losses and capital reserve as at 1 January 2000 are increased by HK$0.8 million and HK$0.8 million respectively.

The adoption of the other new and revised SSAPs has no significant effect on the results of the Group in the current or prior period.

2. Turnover

The principal activity of the Group is the manufacture and sale of optical products. Therefore, no separate analysis of turnover and results from operations by principal activity is prepared as all the information has been disclosed in the consolidated profit and loss account.

The analysis of turnover by geographical location of the Group's customers during the period is as follows :

Geographical location of the Group's customers	Group turnover Six months ended 30 June **2001** **(Unaudited)** ***HK$'000***	 2000 (Unaudited) *HK$'000*
United States of America	**76,148**	75,837
Europe	**30,515**	41,901
Hong Kong	**6,753**	6,676
People's Republic of China	**6,909**	12,286
Australia	**4,377**	2,553
Canada	**3,728**	4,360
Others	**526**	1,416
	128,956	145,029

3. Other operating expenses

	Six months ended 30 June **2001** **(Unaudited)** ***HK$'000***	 2000 (Unaudited) *HK$'000*
(Provision)/Write back of provision for inventories (note a)	**(4,143)**	477
Provision for doubtful debts (note b)	**(1,009)**	–
Net gain/(loss) on disposal of fixed assets	**77**	(154)
Write-off of fixed assets (note c)	**(936)**	–
Reconstruction cost (note d)	**(877)**	–
Others	**(920)**	(606)
	(7,808)	(283)

Notes:

(a) Provision for inventories in 2001 represents the net provision for slow-moving and obsolete items determined by the directors in re-assessing the net realisable value of inventories within the Group.

(b) Provision for doubtful debts in 2001 represents specific provision for trade debtors.

(c) Write-off of fixed assets represents fixed assets written off due to wear, tear and obsolescence.

(d) Reconstruction cost in 2001 represents professional fees arising from financial and legal advice on the Group's restructuring plans.

4. Disposal of Swank China Retail operations

Swank China Development Company Limited and four of its subsidiaries (collectively described as "Swank China Retail") which are engaged in the retailing of optical goods in the PRC, were disposed of in March 2001. Provisions of approximately HK$14 million have been made at 31 December 2000 for estimated impairment of the underlying fixed assets, inventories and professional fees incurred. The charge in 2001 mainly represents additional professional fees incurred net of exchange gain realised on the disposal of Swank China Retail.

5. Write back of provision for diminution in value of associates

Write back of provision for diminution in value of associates in 2001 represents the reversal of provision for diminution in an associate following the disposal of its investment in Creative Optics, to an independent third party in February 2001. This transaction gave rise to a reversal of provision of approximately HK$1.7 million and net cash proceeds of approximately HK$3.8 million had been received.

6. Provision for diminution in value of associates

Provision for diminution in value of associates in 2000 represents the directors' best estimate of diminution in value, which is other than temporary, for the Group's interest in certain associates.

7. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging :

		Six months ended 30 June	
		2001	2000
		(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*
(a)	Finance cost		
	Interest on bank advances and other borrowings repayable within five years	**12,392**	12,223
	Finance charges on obligations under finance leases	**2**	30
		12,394	12,253

		Six months ended 30 June	
		2001	2000
		(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*
(b)	Other items		
	Depreciation	**7,676**	10,231

8. Taxation

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the period	**–**	–
Underprovision in respect of prior years	**–**	22
	–	22
Share of associates' taxation	**377**	–
	377	22

No provision has been made for Hong Kong profits tax and overseas taxation in 2001 as the Group sustained a loss for taxation purposes during the period.

9. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders for the period of HK$13,279,000 (2000: HK$14,328,000) and the weighted average of 732,044,805 ordinary shares (2000: 732,044,805) in issue throughout the period.

(b) Diluted loss per share

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2001 or 30 June 2000.

10. Fixed assets

As at 30 June 2001, the Group has pledged certain fixed assets having a net book value of approximately HK$24 million (at 31 December 2000 : HK$25 million) in accordance with the terms of the debentures to provide security for the bank loans and convertible notes.

11. Inventories

As at 30 June 2001, gross amount of inventories of HK$71 million (at 31 December 2000: HK$76 million) has been fully provided for. The amount of these inventories carried at net realisable value is HK$nil (at 31 December 2000: HK$nil). The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated profit and loss account as a reduction in the amount of inventories recognised as an expense during the period, is approximately HK$3.1 million (six months ended 30 June 2000: HK$4.8 million). This reversal arose due to an increase in the estimated net realisable value of certain inventories, which had been previously written down to net realisable value, but were subsequently used or sold during the period at higher than the original estimated amount.

As at 30 June 2001, the Group has pledged certain inventories having a net book value of approximately HK$0.7 million (at 31 December 2000: HK$4 million) in accordance with the terms of the debentures to provide security for the bank loans and convertible notes.

12. Debtors, deposits and prepayments

The Group's credit terms on sales range from 0 day to 120 days. Included in debtors, deposits and prepayments are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2001 (Unaudited) *HK$'000*	At 31 December 2000 (Audited) *HK$'000*
Current to 30 days overdue	**46,748**	47,445
31 to 60 days overdue	**4,054**	4,587
61 to 90 days overdue	**1,644**	901
More than 90 days overdue	**1,500**	1,816
	53,946	54,749

Debtors with overdue balances are requested to settle all their outstanding balances unless approval is obtained from the directors of the Group, before any further credit is granted.

13. Cash and cash equivalents

	At 30 June 2001 (Unaudited) *HK$'000*	At 31 December 2000 (Audited) *HK$'000*
Deposits with banks	**1,428**	2,138
Cash at bank and in hand	**10,564**	7,645
	11,992	9,783

14. Creditors and accrued charges

All of the creditors and accrued charges are expected to be settled within one year. Included in creditors and accrued charges are trade creditors with the following ageing analysis:

	At 30 June 2001 (Unaudited) *HK$'000*	At 31 December 2000 (Audited) *HK$'000*
Current to 30 days overdue	**18,322**	21,330
31 to 60 days overdue	**2,307**	3,239
61 to 90 days overdue	**407**	482
More than 90 days overdue	**2,459**	1,383
	23,495	26,434

15. Bank loans

Due to the Group's financial constraint, the Group was not able to make interest payments on the bank loans due on 31 May and 31 August 2001 amounting to approximately HK$12 million in total. The banks have given the Group a waiver on these non-payment of interest as an event of default under the loan agreement, until 30 September 2001.

16. Share capital

	No. of shares	***HK$'000***
Ordinary shares of HK$0.20 each		
Authorised :		
At beginning and at end of the periods	2,500,000,000	500,000
Issued and fully paid :		
At beginning and at end of the periods	732,044,805	146,409

17. Reserves

	Share premium *HK$'000*	Property revaluation reserve *HK$'000*	Capital reserve *HK$'000*	Translation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2001						
– as previously reported	715,132	30,704	4,381	12,961	(1,232,515)	(469,337)
– Prior period adjustment :						
Effect of adopting SSAP 30 (note 1b)	–	–	751	–	(751)	–
– Opening balance adjustment :						
Effect of adopting SSAP 28 (note 1a)	–	–	–	–	(1,000)	(1,000)
At 1 January 2001, as restated	715,132	30,704	5,132	12,961	(1,234,266)	(470,337)
Exchange differences on translation of accounts of overseas subsidiaries	–	–	–	(226)	–	(226)
Transfer to profit and loss account on disposal of Swank China Retail	–	–	–	(424)	–	(424)
Loss for the period	–	–	–	–	(13,279)	(13,279)
At 30 June 2001	715,132	30,704	5,132	12,311	(1,247,545)	(484,266)

18. Lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows :

	At 30 June 2001 (Unaudited) ***HK$'000***	At 31 December 2000 (Restated) *HK$'000*
Within 1 year	**3,107**	7,043
After 1 year but within 5 years	**732**	14,132
After 5 years	**–**	25,547
	3,839	46,722

19. Contingent liabilities

The Group had a number of employees who have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31 December 2000, the Group's maximum liability under long service payments after offsetting their entitlements in the defined contribution retirement benefits scheme and mandatory provident fund would have been approximately HK$1 million. This was disclosed as a contingent liability in the 2000 annual report. Following the adoption of SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets" on 1 January 2001, the Group's maximum liability in this respect at 1 January 2001 and at 30 June 2001 is estimated at HK$1 million and a provision of the same amount has been made in the interim financial report (note 1a).

20. Material related party transactions

The following is a summary of material transactions between the Group and certain associates which were carried out in the normal course of business on commercial terms during the period:

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sales	**2,425**	1,233
Purchases of raw materials and optical products	**6,808**	5,571
Management fee received (rental and utilities income)	**2,098**	2,115

Amounts due to associates are disclosed in the consolidated balance sheet. Amounts due from associates at 30 June 2001 amounted to HK$4,654,760 (at 31 December 2000: HK$1,574,657). These balances are non-interest bearing and have no fixed terms of repayment.

21. Post balance sheet event

On 16 July 2001, The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), the trust agent of Optiset Limited ("Optiset"), the major shareholder of the Company, entered into an exclusivity agreement (the "Exclusivity Agreement") with Tomorrow International Holdings Limited ("TIHL") in relation to, among others, TIHL's proposed acquisition of the entire interests of Optiset in the Company (the "Acquisition"). If the Acquisition proceeds, it is anticipated that TIHL will become the major shareholder of the Company. As at the date of this interim report, no formal agreement has yet been reached.

Interim Dividend

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2001.

Management Discussion And Analysis

Results

The Group's consolidated turnover and net loss attributable to shareholders for the six months ended 30 June 2001 were HK$128.9 million and HK$13.3 million, respectively.

At HK$128.9 million, turnover was HK$16.1 million or 11% lower than the same period last year. Lower turnover was partly due to Swank China Retail being spun off by the Group in March this year, resulting in HK$5.9 million less turnover being booked compared with last year. Lower turnover was also due to difficult market conditions in the United States as a result of mergers and acquisitions of certain customer accounts, and the strong US dollar against Euro which makes our products less price competitive.

In spite of lower turnover and difficult market conditions, the Group has managed to maintain the gross profit margin at the same level as last year of 28%.

Other revenue has dropped slightly due to less interest being earned from bank deposits as a result of lower cash position compared with last year.

Selling & administrative expenses have decreased by HK$8.1 million, of which HK$5.3 million was due to disposal of Swank China Retail operations in March this year and HK$2.8 million was mainly due to discretionary sales expenses being reduced and lower freight charges as a result of lower turnover.

Other operating expenses have increased by HK$7.5 million due to provisions made for obsolete stock held by the Group's overseas distribution network, as well as professional fees incurred in connection with proposed financial restructuring. Also included is a HK$1.0 million provision being made for certain customer accounts, whose payments are doubtful at this point in time.

The Group's 50 percent-owned associated company Yueheng has made a good turn-around this year. As a result of a worldwide shortage in the supply of polycarbonate plastic lens, Yueheng has taken advantage of the market opportunity to achieve a record high increase in sales volume. This coupled with the good sales of the Group's proprietary LYX plastic lens, have contributed to a good profit for Yueheng for the first half of 2001.

During the period, the Group's associated company disposed its investment in Creative Optics which resulted in receipt of net cash proceeds of HK$3.8 million and a reversal of provisions amounted to HK$1.7 million.

In summary, the Group had a loss attributable to shareholders of HK$13.3 million in 2001 versus HK$14.3 million in 2000. This loss can be explained by a lower turnover accompanied by reduced expenses, and certain exceptional costs in other operating expenses being offset by a better result from associated companies.

Business Review

Due to financial constraint, the Group did not make any major investments in manufacturing during the period, other than for essential replacements. In the meantime, the drive for continuous improvements in business has continued, including the installation of an Enterprise Resource Planning (ERP) system which implementation was completed in March 2001 in the Group's Henggang plant. As a result of a much better information architecture, the Group has started to review many of the business processes to reduce inventory levels, improve lead time, and reduce operating costs.

On the sales side, the Group has continued to face changes in its customer portfolio. While the metal frame business has been stable in the United States, the Group has continued to see challenges in the United States Sunglasses market, with the continual erosion of its market share of low end products. Certain customers have also reduced their immediate buying plans due to internal reorganization and as a result of mergers and acquisitions. In the meantime, the Group has succeeded in identifying and developing new accounts to replace the lost sales volume.

At the strategic level, the Group has succeeded in disposing of its retail operations in China in March 2001. The loss was substantially provided for in the Year 2000 annual accounts and from an operational standpoint its disposal has enabled the Group to focus on its core business of Sunglasses and Frames manufacturing.

Prospects and Outlook

Good foundations for future improvements have been laid in most functional areas. Future improvements will gain from better product design and manufacturing process, allowing the Group to position its products at the higher end. The Group will continue to reorganize itself to have better sales and marketing programs so as to adjust to changes in market conditions.

As pointed out in note 21 to the interim financial report, the Group's major shareholder Optiset is currently in negotiation with a Hong Kong listed company, Tomorrow International Holdings Limited, for a potential disposal of their interest in the Group. In the meantime, due to the Group's financial constraint, the Group was not able to make interest payments of approximately HK$6 million each which became due on 31 May and 31 August 2001, respectively. Waivers of default have been received by the Group from the banks. The latest waiver of default has a validity period until 30 September 2001.

Liquidity and Financial Review

The Group mainly finances its day to day operations with internally generated cash flow. As at 30 June 2001, the current ratio of the Group was 1.6 : 1.

During the period, the Group recorded a cash inflow from operating activities of HK$5.5 million. Taking into account the requirements under the loan agreements to make repayments to the bank group on the HK$250 million loan due in years 2002 to 2006, the Group believes that financial support of the bank group is absolutely essential.

The Group conducts its business transactions mainly in Hong Kong Dollars, US Dollars and RMB. The Group did not arrange any forward currency contracts for hedging purposes. Whilst over 95 percent of the Group's cash is denominated in currencies directly and indirectly linked to the US

Dollars, the exposure to exchange fluctuation, gains and losses, is minimal. The Group's bank loans bear interest at a rate per annum equivalent to 1% over prime payable quarterly in arrears. The Group's borrowings are mainly denominated in Hong Kong Dollars.

During the first half of 2001, there was no material change on the Group's capital structure. As at 30 June 2001, the gearing ratio (long term debts /(long term debts + shareholders fund of the Group)) was 2.59.

Charges on Group Assets

Pursuant to the standstill agreement signed between the Company and the banks in July 1997, the Group executed several debentures incorporating fixed and floating charges over all of the undertaking, property and assets of certain Group companies (the "Debentures") as security for the outstanding indebtedness. After the completion of the compromise agreement, the Debentures were amended to provide all such securities for the bank loans and the convertible notes. As at 30 June 2001, the total charges on the Group's total assets amounted to approximately HK$141.7 million (at 31 December 2000 : approximately HK$181.6 million). Out of the HK$141.7 million, HK$23.9 million was on fixed assets and HK$0.7 million was on inventories and the balance was a floating charge on other assets.

Human Resources

As at 30 June 2001, the Company and its subsidiaries had 2,376 employees.

Pursuant to the Company's share option scheme adopted on 28 June 1996 for a period of 10 years, the Company may offer to full time employees (including executive directors) of the Company and its subsidiaries options to subscribe for shares in the Company, subject to a maximum limit of 10 percent of the issued share capital of the Company from time to time. No share options have been granted during the period.

The remuneration policy and package of the Group's employees are based on their performance, experience, prevailing industry practice and market rates. In addition to the basic salaries and contributions to the provident fund, the Group also provides staff benefits including discretionary bonus to senior staff and medical insurance scheme. The Group also provided appropriate training for the employees' better personal development and growth.

Directors' Interest in Shares

One of the directors who held office at 30 June 2001 had the following interests in the issued share capital of the Company at that date as recorded in the register as required under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") :

	Number of shares	
	Personal interests	**Corporate interests**
Christopher Coulcher	1,982,000	–

Save as disclosed above and other than shares in subsidiaries held by the directors in trust for the Company, at no time during the period was the Company or any of its subsidiaries, a party to any arrangement to enable the directors or their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Interests in the Share Capital of the Company

As at 30 June 2001 according to the register of interests required to be kept under section 16(1) of the SDI Ordinance, the shareholders who were interested in 10 percent or more of the issued share capital of the Company were as follows :

	Ordinary shares held	Percentage of total issued shares
Optiset Limited (note i)	373,342,850	51
William E. Simon & Sons (Asia) Ltd	94,118,950	13

Note :

i) Although Optiset Limited holds 51% of the Company's ordinary shares, the directors consider that it is not the Company's holding company, nor is there an ultimate holding company as such, for the reason that Optiset Limited is only a vehicle through which the individual bank creditors can hold the Company's shares and convertible notes in aggregate.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2001, there was no purchase, sale or redemption of shares or other securities of the Company by the Company or its subsidiaries.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Main Board Listing Rules during the six months ended 30 June 2001.

Review by Audit Committee

The 2001 interim report has been reviewed by the Audit Committee which comprises of two independent non-executive directors.

By order of the Board
Gerald Dobby
Chairman

Hong Kong, 19 September 2001