



COSMOS MACHINERY ENTERPRISES LIMITED

2001

interim report

The board of directors (the “Board”) of Cosmos Machinery Enterprises Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2001 with comparative figures for the corresponding period in 2000 are as follows:

Condensed Consolidated Income Statement

	Notes	Six months ended 30th June,	
		2001 (Unaudited) HK\$'000	2000 (Unaudited and restated) HK\$'000
Turnover	3	657,048	836,923
Cost of sales		(517,841)	(647,927)
Gross profit		139,207	188,996
Other revenue		13,855	18,952
Distribution costs		(47,097)	(61,516)
Administrative expenses		(120,978)	(111,277)
Provision for bad and doubtful debts		(11,428)	(2,946)
(Loss) profit from operations	4	(26,441)	32,209
Finance costs		(12,343)	(11,955)
Investment income		1,161	1,021
Gain (loss) on disposal of subsidiaries		4,654	(293)
Loss on disposal of associates		(788)	—
Share of results of associates		6,845	3,233
(Loss) profit before taxation		(26,912)	24,215
Taxation	5	3,239	4,840
(Loss) profit before minority interests		(30,151)	19,375
Minority interests		6,345	15,085
Net (loss) profit for the period		(36,496)	4,290
(Loss) earnings per share	6	(5.7 cents)	0.67 cent

Condensed Consolidated Balance Sheet

	Notes	30th June, 2001 (Unaudited) HK\$'000	31st December, 2000 (Audited and restated) HK\$'000
Non-current Assets			
Investment properties		12,050	12,050
Property, plant and equipment	8	436,136	429,906
Goodwill			
Goodwill		4,061	3,272
Negative goodwill		(4,274)	(7,487)
Interests in associates		52,831	62,547
Investments in securities		15,963	16,586
Loans to investee companies		408	460
		517,175	517,334
Current Assets			
Inventories		453,686	486,784
Trade and other receivables	9	545,215	544,199
Bills receivable		467	2,133
Tax recoverable		1,539	1,872
Pledged bank deposits		1,093	1,871
Bank balances and cash		60,946	88,967
		1,062,946	1,125,826
Current Liabilities			
Trade and other payables	10	461,204	493,535
Bills payable		79,193	108,742
Amounts due to associates		705	1,423
Tax payable		7,692	8,599
Borrowings — due within one year		199,264	180,476
Bank overdrafts		42,242	28,154
		790,300	820,929
Net Current Assets		272,646	304,897
		789,821	822,231

Condensed Consolidated Balance Sheet (Continued)

	Notes	30th June, 2001 (Unaudited) HK\$'000	31st December, 2000 (Audited and restated) HK\$'000
Capital and Reserves			
Share capital	11	256,335	256,333
Reserves	14	373,371	412,149
		629,706	668,482
Minority Interests		142,684	144,896
Non-current Liabilities			
Borrowings — due after one year		17,035	8,668
Deferred taxation		396	185
		17,431	8,853
		789,821	822,231

Condensed Consolidated Statement of Recognised Gains and Losses

	For the six months ended 30th June,	
	2001 (Unaudited) HK\$'000	2000 (Unaudited and restated) HK\$'000
Exchange differences arising from translation of overseas operations	(2,282)	(4,558)
Net loss not recognised in the consolidated income statement	(2,282)	(4,558)
Net (loss) profit for the period	(36,496)	4,290
Total recognised losses	(38,778)	(268)
Effect of change in accounting policy on adoption of SSAP 30		
Business combinations		
— increase in accumulated profits as at 1st January, 2000		7,480
— decrease in capital reserve as at 1st January, 2000		(11,469)
		(3,989)

Condensed Consolidated Cash Flow Statement

	For the six months ended 30th June, 2001 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(23,016)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(18,182)
TAXATION PAID	(2,922)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(20,755)
NET CASH OUTFLOW BEFORE FINANCING	(64,875)
NET CASH INFLOW FROM FINANCING	23,681
DECREASE IN CASH AND CASH EQUIVALENTS	(41,194)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	60,813
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(915)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	18,704
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS	
Bank balances and cash	60,946
Bank overdrafts	(42,242)
	18,704

For the six months ended 30th June, 2001

1. Significant Accounting Policies

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice 25 (“SSAP 25”) Interim financial reporting except that the comparative figures of the condensed consolidated cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31st December, 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new accounting policies.

Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 Segment Reporting. Segment disclosures for the six months ended 30th June, 2000 have been amended so that they are presented on a consistent basis.

Goodwill

In the current period, the Group has adopted SSAP 30 Business Combinations and has elected to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, the amount of such goodwill (negative goodwill) has been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation and impairment losses in respect of goodwill between the date of acquisition of the relevant subsidiary and the date of adoption of SSAP 30 have been recognised retrospectively. Negative goodwill which would have been recognised as income between the date of acquisition of the relevant subsidiary and the date of adoption of SSAP 30 has been recognised retrospectively. The effect of these adjustments is summarised in Note 2. Following restatement, goodwill is presented as an asset in the balance sheet and negative goodwill is presented as a deduction from assets. Goodwill is amortised over its estimated useful life, i.e. over periods ranging between 5 and 20 years. Negative goodwill will be released to income based on an analysis of the circumstances from which the balance resulted.

For the six months ended 30th June, 2001

2. Prior Period Adjustment

The financial effect of the adoption of the new accounting policies described in Note 1 is summarised below:

	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1st January, 2001			
As previously stated	10,982	97,635	108,617
Restatement as an asset of goodwill held in reserves with retrospective recognition of accumulated amortisation and past impairment loss	21,529	(18,256)	3,273
Restatement of negative goodwill held in reserves with retrospective release to income	(32,511)	25,156	(7,355)
Adjustment for gain on disposal of subsidiaries after restatement of negative goodwill	—	(133)	(133)
As restated	—	104,402	104,402

The effect of these changes in accounting policy on the results for the current and prior periods is as follows:

	6 months ended 30th June, 2001 HK\$'000	12 months ended 31st December, 2000 HK\$'000	6 months ended 30th June, 2000 HK\$'000
Amortisation of goodwill	(1,501)	(4,306)	(2,134)
Release of negative goodwill to income	3,213	6,425	3,213
Impairment loss recognised in respect of goodwill	—	(2,699)	—
Adjustment on gain on disposal of subsidiaries	—	(133)	—
	1,712	(713)	1,079

For the six months ended 30th June, 2001

3. Segmental Information

The Group's turnover and contribution to (loss) profit from operations for the six months ended 30th June, 2001 and analysed by business segment and geographical market are as follows:

	Turnover		Contribution to (loss) profit from operations	
	Six months ended 30th June,		Six months ended 30th June,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By business segment:				
Trading of industrial consumables	105,943	213,966	(35,212)	(7,332)
Plastic processing/products	99,768	103,510	16,756	12,694
Industrial machinery	222,049	268,312	8,269	36,824
Electronic products	118,229	126,200	(9,057)	(3,744)
Printed circuit board	91,656	95,337	4,481	9,138
Others	19,403	29,598	(11,678)	(15,371)
	657,048	836,923	(26,441)	32,209
Finance costs			(12,343)	(11,955)
Investment income			1,161	1,021
Gain (loss) on disposal of subsidiaries			4,654	(293)
Loss on disposal of associates			(788)	—
Share of results of associates			6,845	3,233
(Loss) profit before taxation			(26,912)	24,215

For the six months ended 30th June, 2001

3. Segmental Information (Continued)

	Turnover		Contribution to (loss) profit from operations	
	Six months ended 30th June,		Six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By geographical market:				
Hong Kong	166,436	155,803	(25,583)	(6,541)
Other regions in the People's Republic of China	219,811	419,887	(10,539)	25,584
Other Asia-Pacific countries	140,243	146,289	5,465	5,970
Europe	94,787	53,817	6,318	6,050
North America	35,771	61,127	(2,102)	1,146
	657,048	836,923	(26,441)	32,209
Finance costs			(12,343)	(11,955)
Investment income			1,161	1,021
Gain (loss) on disposal of subsidiaries			4,654	(293)
Loss on disposal of associates			(788)	—
Share of results of associates			6,845	3,233
(Loss) profit before taxation			(26,912)	24,215

For the six months ended 30th June, 2001

4. (Loss) profit from Operations

	For the six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Depreciation and amortisation on:		
Owned assets	24,443	24,256
Assets held under finance leases and hire purchase contracts	3,448	2,681
Goodwill	1,501	2,134
Loss on disposal of property, plant and equipment	1,113	769
and after crediting:		
Negative goodwill released	3,213	3,213

5. Taxation

	For the six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	1,183	1,997
Overseas taxation	1,165	2,614
Deferred taxation	210	—
Taxation attributable to the Company and its subsidiaries	2,558	4,611
Share of tax on results of associates	681	229
	3,239	4,840

Hong Kong Profits Tax is calculated at 16% (2000: 16%) on the estimated assessable profit for the period.

5. Taxation (Continued)

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to relevant laws and regulations in the People's Republic of China (the "PRC"), certain of the Group's PRC subsidiaries are entitled to an exemption from PRC enterprise income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

6. (Loss) earnings Per Share

The calculation of the basic (loss) earnings per share for the period is based on the net loss for the period of approximately HK\$36,496,000 (2000: profit of approximately HK\$4,290,000, restated) and on the weighted average number of shares in issue during the period of 640,831,772 (2000: 639,116,819).

No diluted loss per share has been presented for the period ended 30th June, 2001 as the exercise of the share options and warrants would result in a decrease in the loss per share.

No diluted earnings per share has been presented for the period ended 30th June, 2000 because the exercise price of the Company's options was higher than the average market price for shares for the period.

7. Interim Dividend

The Board has resolved not to declare an interim dividend in respect of the six months ended 30th June, 2001 (2000: Nil).

8. Property, Plant and Equipment

During the period, the Group has acquired property, plant and equipment amounting to approximately HK\$44,146,000.

9. Trade and Other Receivables

The Group allows an average credit period of 90 days to 120 days to its customers.

Included in trade and other receivables are trade receivables of approximately HK\$404,895,000 (31st December, 2000: approximately HK\$431,705,000) and their aging analysis is as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
0 to 3 months	251,106	272,869
4 to 6 months	52,991	55,998
7 to 9 months	32,775	25,751
Over 9 months	68,023	77,087
	404,895	431,705

For the six months ended 30th June, 2001

10. Trade and Other Payables

Included in trade and other payables are trade payables of approximately HK\$242,387,000 (31st December, 2000: approximately HK\$347,649,000) and their aging analysis is as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
0 to 3 months	170,761	269,601
4 to 6 months	47,130	40,868
7 to 9 months	17,507	13,805
Over 9 months	6,989	23,375
	242,387	347,649

11. Share Capital

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.40 each		
<i>Authorised:</i>		
At 1st January, 2001 and 30th June, 2001	1,000,000,000	400,000
<i>Issued and fully paid:</i>		
At 1st July, 2000 and at 1st January, 2001	640,831,434	256,333
Exercise of warrants	6,800	2
At 30th June, 2001	640,838,234	256,335

All the shares issued by the Company during the period rank pari passu with the then existing shares in all respects.

12. Warrants

On 23rd April, 2001 and 2nd May, 2001, the Company announced a proposed bonus issue of 128,166,286 warrants to the shareholders, conferring right to subscribe an aggregate of approximately HK\$51,266,000 in cash for shares of the Company. Each warrant will entitle the holder to subscribe one new share of the Company at an initial subscription price of HK\$0.40 per share, subject to adjustment, exercisable at any time from 11th June, 2001 to 10th June, 2003, both date inclusive. The issue of the warrants was approved by an ordinary resolution in an extraordinary general meeting of the Company held on 6th June, 2001.

At 30th June, 2001, the Company had outstanding warrants conferring rights to subscribe for up to approximately HK\$51,264,000 in cash for shares.

Exercise in full of these outstanding warrants would, under the share capital structure of the Company as of 30th June, 2001, result in issue of 128,159,486 additional shares.

Details of the exercise of the Company's warrants during the period are set out in note 11.

13. Share Option Scheme

Pursuant to the share option scheme of the Company adopted on 13th June, 1997 (the "Scheme"), the Company may grant options at the discretion of the directors to full-time employees, including executive directors, of the Group to subscribe for its shares subject to certain terms and conditions. The maximum number of shares in respect of which options may be granted under the Scheme is limited to 10% of the issued share capital of the Company from time to time. The maximum entitlement for any eligible employee must not exceed 25% of the total number of shares subject to the Scheme.

The subscription price of the options is determined by the directors of the Company but cannot be less than 80% of the average of the closing price of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of grant of the option or the nominal value of the Company's shares, whichever is the higher.

Details of the movements of the options during the period and the outstanding options at 30th June, 2001 were as follows:

Date of grant	Exercise price HK\$	Number of share options outstanding as at 1st January, 2001	Granted during the period	Exercised during the period	Number of share options outstanding as at 30th June, 2001
21.6.2001	0.41	—	15,800,000	—	15,800,000

For the six months ended 30th June, 2001

13. Share Option Scheme (Continued)

The above options under the Scheme can be exercised at any time during the period of twenty one months commencing on the expiry of three months after the date upon which the option is accepted and expiring on the last date of such two year period.

14. Reserves

	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2001							
As previously stated	267,149	55,876	(15,872)	10,982	594	97,635	416,364
Prior period adjustment (Note 2)	—	—	—	(10,982)	—	6,767	(4,215)
As restated	267,149	55,876	(15,872)	—	594	104,402	412,149
Exchange differences arising from translation of overseas operations, net of minority interests' share	—	—	(2,282)	—	—	—	(2,282)
Loss for the period	—	—	—	—	—	(36,496)	(36,496)
At 30th June, 2001	267,149	55,876	(18,154)	—	594	67,906	373,371

15. Operating Lease Commitments

At the balance sheet date, the Group had commitments in respect of land and buildings under non-cancellable operating leases to make the following payments within the next year:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Operating leases which expire:		
Within one year	—	441
In the second to fifth year inclusive	—	97
Over five years	3,234	4,005
	3,234	4,543

For the six months ended 30th June, 2001

16. Other Commitments

	30th June, 2001 <i>HK\$'000</i>	31st December, 2000 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	7,095	25,887
Investments	5,882	14,458
	12,977	40,345

17. Contingent Liabilities

	30th June, 2001 <i>HK\$'000</i>	31st December, 2000 <i>HK\$'000</i>
Guarantees given to financial institutions in respect of credit facilities utilised by outsiders	19,481	19,716
	19,481	19,716

For the six months ended 30th June, 2001

18. Transactions and Balances with Related Parties

During the period, the Group had significant transactions with the following related parties:

	Six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000
Substantial shareholder and its subsidiaries:		
Licence fee paid (note i)	1,215	1,907
Sales of goods (note iii)	790	—
EDP charges received (note i)	83	83
Management fee paid (note i)	1,388	1,328
Companies controlled by certain directors:		
Management fee paid (note i)	777	756
EDP charges received (note i)	26	—
Minority shareholders:		
Consultancy fee paid (note i)	114	124
Management fee paid (note i)	93	—
Interest paid (note iv)	650	600
Acquisition of additional interest in a subsidiary (note ii)	3,200	—
Associates:		
Purchase of raw materials (note iii)	5,173	11,577
Sales of goods (note iii)	1,428	46
Rental income (note i)	—	156
Management fee received (note i)	23	—
Management fee paid (note i)	240	240
Agency fee paid (note i)	—	456
Interest paid (note v)	—	129

18. Transactions and Balances with Related Parties (Continued)

As at the balance sheet date, the Group has balances with the following related parties:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Substantial shareholder and its subsidiaries:		
Balance due by the Group as at balance sheet date (note vi)	5,579	3,849
Balance due to the Group as at balance sheet date (note vi)	1,109	4,682
Company controlled by certain directors:		
Balance due by the Group as at balance sheet date (note vi)	608	—
Minority shareholders:		
Balance due by the Group as at balance sheet date (note vii)	20,225	19,094
Balance due to the Group as at balance sheet date (note vi)	8,873	10,984
Associates:		
Balance due by the Group as at balance sheet date (note v)	705	1,423
Balance due to the Group as at balance sheet date (note v)	15,235	29,730

Notes:

- (i) The prices of the transactions were determined by the directors with reference to market prices or prices for similar transactions with unrelated third parties.
- (ii) The transaction was carried out pursuant to the sale and purchase agreement entered into during the period.
- (iii) These transactions were carried out at cost plus a percentage profit mark up.
- (iv) The interest was charged at 10% per annum on the outstanding balances.
- (v) The interest are charged at prime rate plus 0.5% per annum on the outstanding balances.
- (vi) The balances are unsecured, interest free and have no fixed repayment term.
- (vii) The balances are unsecured, interest free and have no fixed repayment term. Other than an amount of approximately HK\$10,591,000 which bears interest at 10% per annum, the remaining balances are interest free.

Save as disclosed above, there were no other significant transactions with related parties during the period or significant balances with them at the end of the period.

19. Comparative Figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

Business Review and Prospects

Business Review

The consolidated turnover of the Group for the first half of the year amounted to approximately HK\$657,048,000, a decrease of 21% over the corresponding period last year. During the period under review, operating loss of approximately HK\$26,441,000 and the net loss attributable to shareholders of approximately HK\$36,496,000 was recorded.

During the period under review, various sectors of the Group experienced difficulties and challenges. A decline in turnover was recorded because the business in the trading sector of the Group experienced considerable shrinkage. To accomplish the strategic adjustment of the Group, activity of machinery trading in the People's Republic of China (the "PRC") was ceased. As a result, a loss was suffered during the period.

In the second quarter of the year, slowdown in the market of the United States (the "US") has gradually emerged and posed a great impact to the market directly related to export. Having encountered shrinkage in export orders, customers became prudent and conservative in investment of new equipments. Demand for quality industrial components also decreased. However, domestic market in the PRC still developed steadily. Being less influenced by the markets of Europe and the US, markets in the Northeastern and Northwestern Provinces of the PRC developed desirably as envisaged. Foreign investments were still active in the Eastern Provinces of the PRC.

Under this market atmosphere, though there was growth in markets of plastic injection moulding machines in the Eastern and Northeastern Provinces of the PRC, there was quite a distance comparing the consolidated results of the first half-year with those of last year. As a result, the operation of the plastic injection moulding machine was unsatisfactory during the period. Prototypes of the "All electric plastic injection moulding machine" successfully developed last year has been put in production recently; response from trial of clients was quite promising. Other new models will be added to this machine series.

Markets of both electronic audio products and printed circuit board were influenced by the sluggish markets in Europe and the US, results were undesirable in the first half-year. However, there is positive feedback to newly developed products and newly explored markets, results could be expected to turn around slightly next half-year.

Business of plastic products and plastic processing was less affected. There was improvement in consolidated results over last year. Under development and strategies of the Group, business could be prudently expanded in accordance with our plan.

Exploration of the market of industrial consumables and parts in the Northwestern Provinces of the PRC has begun to take effect; growth in results of the region was more desirable comparing with last year. However, under the impact of decline in the US market, the consolidated results still diminished.

Prospects

In view of the sluggish US market with no recovery in near future, the Group, apart from making corresponding provisions, is actively regulating the structure of operation in various member corporate to press down the cost as well as to enhance adaptability. Based on our emphasis on research and development in the past, with new products and new business directions, we will pave our way for challenges in new markets.

Liquidity and Financial Resources

The Group finances its operations with internally generated cash flow and banking facilities provided by its bankers in Hong Kong and China. Both the liquidity ratio and gearing ratio were maintained at a healthy level as in line with the Group's prudent cash management strategy. Inventory level was strictly controlled and accounts receivable was closely monitored. The Group's gearing ratio as at 30th June, 2001 was 2.7% (31st December, 2000: 1.3%) which was calculated based on long term borrowings of approximately HK\$17,035,000 (31st December, 2000: approximately HK\$8,668,000) and shareholders' funds of approximately HK\$629,706,000 (31st December, 2000: approximately HK\$668,482,000).

Directors' Interests in Shares and Options of the Company

As at 30th June, 2001, according to the register required to be maintained under section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”), the interests of directors, chief executive and their associates in the share capital of the Company (within the meaning of the SDI Ordinance) were as follows:

Interests in shares of the Company

Name of director	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Tang To	2,700,000	—	3,145,824 (Note 1)	—
Mr. Wong Yiu Ming	8,814,611	—	—	—
Ms. Zhou Junqing	—	20,000	—	—
Mr. Tang Kwan	—	—	270,086,411 (Note 2)	—
Mr. Kan Wai Wah	124,000	—	—	—

Notes:

- (1) As at 30th June, 2001, 3,145,824 shares of the Company were held by Ginta Company Limited which is beneficially owned as to 10% by the spouse of Mr. Tang To and 90% by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
- (2) Mr. Tang Kwan is deemed to be interested in the block of 270,086,411 shares of the Company under the SDI Ordinance through his beneficial interests in Codo Development Limited (“Codo”). As at 30th June, 2001, Codo through its wholly-owned subsidiary, Cosmos Machinery (Holdings) Limited (“Cosmos Holdings”), a substantial shareholder of the Company, was the beneficial owner of 270,086,411 shares of the Company. Codo is incorporated in Hong Kong and is owned as to 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan’s family; and as to 30.25% by Friendchain Investments Limited, a Hong Kong company controlled as to 57.42% by The Saniwell Trust.

Interests in share options of the Company

Pursuant to the share option scheme of the Company adopted on 13th June, 1997, share options were granted to certain directors of the Company which enable them to subscribe for shares in the Company at an exercise price of HK\$0.41 per share. The details are as follows:

Name of director	Number of share options outstanding as at 30th June, 2001	Expiry date of exercise period
Mr. Tang To	2,100,000	19th July, 2003
Mr. Wong Yiu Ming	1,500,000	19th July, 2003

Save as disclosed above and certain nominee shares held in trust for the Group, none of the directors or their associates had any other interests in the share capital of the Company or any associated corporations as defined in the SDI Ordinance as at 30th June, 2001.

Substantial Shareholders

Save as the interests disclosed above in respect of certain directors and their associates, details of the interests representing 10% or more of the issued share capital of the Company as at 30th June, 2001 recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance are as follows:

Name of shareholder	Number of shares held		Percentage of issued share capital
	Direct interest	Deemed interest	
Cosmos Holdings	115,446,000	154,640,411 (Note 1)	42.15
Ms. Law Kit Fong	—	270,086,411 (Note 2)	42.15
China Resources (Holdings) Company Limited ("CRC")	148,576,081	5,650,325 (Note 3)	24.07

Notes:

- (1) Cosmos Holdings is interested in 154,640,411 shares of the Company through its subsidiary, Tai Shing Agencies Limited.

- (2) Ms. Law Kit Fong is deemed to be interested in the block of 270,086,411 shares of the Company through her beneficial interests in Codo. As at 30th June, 2001, Codo through its wholly-owned subsidiary, Cosmos Holdings, was the beneficial owner of 270,086,411 shares of the Company. Codo is a Hong Kong company and is owned as to 8.37% by Elegant Power Enterprises Limited (“Elegant Power”), a company controlled by Ms. Law Kit Fong; as to 30.25% by Friendchain Investments Limited, a Hong Kong company controlled as to 40% by Elegant Power; and as to 16.09% by Yik Wan Company Limited, a Hong Kong company in which Ms. Law Kit Fong’s late spouse, Mr. Kan Woon Cheung, had a 14.29% beneficial holding.
- (3) CRC is interested in 5,650,325 shares of the Company through its subsidiary, China Resources Machinery Company Limited.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 30th June, 2001.

Audit Committee

The interim results have been reviewed by the Audit Committee.

Code of Best Practice

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company had not been for any part of the six months ended 30th June, 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive directors and independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the Company’s Articles of Association.

Employees and Remuneration Policy

As at 30th June, 2001, the Group has approximately 6,000 employees (2000: approximately 7,000), remunerations were formulated in accordance with market trends and performance of employees. Benefits have included schemes of insurance, retirement, share option and so on.

Purchase, Sale or Redemption of the Company’s Listed Securities

During the six months ended 30th June, 2001, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed shares.

On behalf of the Board
TANG To
Chairman

Hong Kong, 25th September, 2001