



**Poly Investments Holdings Limited**

**Poly Investments Holdings Limited**

**Interim Report 2001**

## INTERIM RESULTS

The directors (the "Directors") of Poly Investments Holdings Limited (the "Company") hereby announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2001 together with comparative figures for the six months ended 30th September, 2000 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended	
		30th June, 2001 HK\$'000 (Unaudited)	30th September, 2000 HK\$'000 (Unaudited)
Turnover	3	156,994	192,390
Cost of sales		<u>(145,955)</u>	<u>(154,572)</u>
Gross profit		11,039	37,818
Other revenue		1,550	362
Distribution costs		(739)	(960)
Administrative expenses		(21,676)	(20,833)
Unrealised holding loss on other investments		<u>(350)</u>	<u>(1,360)</u>
(Loss) profit from operations	4	(10,176)	15,027
Finance costs		(9,527)	(7,448)
Share of profit of a jointly controlled entity		<u>1,624</u>	<u>1,550</u>
(Loss) profit before taxation		(18,079)	9,129
Taxation	5	<u>(685)</u>	<u>(1,489)</u>
(Loss) profit before minority interests		(18,764)	7,640
Minority interests		<u>10,704</u>	<u>(649)</u>
(Loss) profit attributable to shareholders		<u>(8,060)</u>	<u>6,991</u>
(Loss) earnings per share			
— Basic	6	<u>(0.66 cents)</u>	<u>0.58 cents</u>

There were no recognised gains or losses other than the (loss) profit attributable to shareholders for both periods.

CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30th June, 2001</b>	31st December, 2000
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Audited)
<b>Non-Current Assets</b>			
Investment properties	7	<b>57,000</b>	57,000
Property, plant and equipment	7	<b>318,359</b>	329,432
Interest in a jointly controlled entity		<b>47,729</b>	48,489
Trademarks		<b>935</b>	1,121
Investments in securities		<b>2,934</b>	3,754
		<hr/> <b>426,957</b> <hr/>	<hr/> 439,796 <hr/>
<b>Current Assets</b>			
Inventories		<b>92,438</b>	96,286
Trade and other receivables	8	<b>23,406</b>	27,459
Investments in securities		<b>2,415</b>	2,765
Short-term loans receivable		<b>4,390</b>	25,000
Pledged bank deposits		<b>32,204</b>	23,291
Bank balances, deposits and cash		<b>401,617</b>	387,299
		<hr/> <b>556,470</b> <hr/>	<hr/> 562,100 <hr/>

		<b>30th June, 2001</b>	31st December, 2000
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	(Audited)
<b>Current Liabilities</b>			
Trade and other payables	9	<b>54,063</b>	51,563
Amount due to a minority shareholder of a subsidiary		<b>63,902</b>	60,672
Taxation payable		<b>772</b>	824
Bank borrowings – due within one year		<b>92,689</b>	98,072
		<b>211,426</b>	211,131
<b>Net Current Assets</b>		<b>345,044</b>	350,969
<b>Total Assets Less Current Liabilities</b>		<b>772,001</b>	790,765
<b>Non-Current Liability</b>			
Bank borrowings – due after one year		<b>134,508</b>	134,508
		<b>637,493</b>	656,257
<b>Capital and Reserves</b>			
Share Capital		<b>607,058</b>	607,058
Deficit		<b>(27,182)</b>	(19,122)
		<b>579,876</b>	587,936
<b>Minority Interests</b>		<b>57,617</b>	68,321
		<b>637,493</b>	656,257

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended</b>	
	<b>30th June, 2001</b>	30th September, 2000
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash inflow from operating activities	<b>32,501</b>	8,564
Net cash outflow from returns on investments and servicing of finance	<b>(6,462)</b>	(5,380)
Tax paid	<b>(35)</b>	(755)
Net cash outflow from investing activities	<u><b>(9,103)</b></u>	<u>(14,471)</u>
Net cash inflow (outflow) before financing	<b>16,901</b>	(12,042)
Net cash (outflow) inflow from financing	<u><b>(2,583)</b></u>	<u>23,575</u>
Increase in cash and cash equivalents	<b>14,318</b>	11,533
Cash and cash equivalents at beginning of the period	<u><b>387,299</b></u>	<u>370,935</u>
Cash and cash equivalents at end of the period	<u><b>401,617</b></u>	<u>382,468</u>

Notes:

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants except as stated below and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

On 20th December, 2000, the directors of the Company resolved to change the financial year end date of the Company from 31st March to 31st December as the majority of the Group’s business is operated by a subsidiary and a jointly controlled entity in the People’s Republic of China (the “PRC”) where they are required by statutes to adopt 31st December as the fiscal year end. The directors believed that the change of the Company’s financial year end date to 31st December would facilitate the preparation of the Group’s consolidated financial statements.

As a result of the change in the financial year end date, the condensed financial statements for the current period cover the six-month period from 1st January, 2001 to 30th June, 2001 but the comparative amounts shown for the condensed consolidated income statement, condensed consolidated cash flow statement and related notes cover the six-month period from 1st April, 2000 to 30th September, 2000 and therefore may not be comparable with the amounts shown for the current period.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the period ended 31st December, 2000, except that in the current period, the Group has adopted SSAP No. 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Any goodwill arising on acquisitions after 1st January, 2001 will be capitalised and amortised over its estimated useful life. Any negative goodwill arising on acquisitions after 1st January, 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Apart from SSAP No. 30, the other new and revised SSAPs adopted during the period do not have significant impact to the Group.

### 3. TURNOVER AND SEGMENT INFORMATION

	Turnover		Operating (loss) profit	
	Six months ended		Six months ended	
	30th June, 2001	30th September, 2000	30th June, 2001	30th September, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical segments				
The PRC	134,499	177,640	(14,276)	9,613
Hong Kong	22,495	14,750	11,636	12,915
	<u>156,994</u>	<u>192,390</u>	<u>(2,640)</u>	<u>22,528</u>
Less: Central administrative expenses			(7,536)	(7,501)
Interest expenses			(9,527)	(7,448)
			<u>(19,703)</u>	<u>7,579</u>
Add: Share of profit of a jointly controlled entity			1,624	1,550
(Loss) profit before taxation			<u>(18,079)</u>	<u>9,129</u>
Business segments				
Manufacturing	134,499	177,640	(14,276)	9,613
Financial services	10,596	12,205	10,371	11,795
Property investment and management	1,824	2,470	1,184	2,405
Securities investment	10,075	75	81	(1,285)
	<u>156,994</u>	<u>192,390</u>	<u>(2,640)</u>	<u>22,528</u>

#### 4. (LOSS) PROFIT FROM OPERATIONS

	<b>Six months ended</b>	
	<b>30th June,</b>	<b>30th September,</b>
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
(Loss) profit from operations has been arrived at after charging (crediting):		
Amortisation of trademarks	<b>186</b>	186
Depreciation and amortisation of property, plant and equipment	<b>11,263</b>	8,859
Dividend income from listed investments	<b>(181)</b>	(75)
Interest income from investments	<b>(10,596)</b>	(12,205)
Other interest income	<b>(844)</b>	(287)
	<u><b>          </b></u>	<u><b>          </b></u>

#### 5. TAXATION

	<b>Six months ended</b>	
	<b>30th June,</b>	<b>30th September,</b>
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
The charge comprises:		
PRC income tax	—	729
Overprovision of PRC income tax in prior period	<b>(17)</b>	—
Share of PRC income tax of a jointly controlled entity	<b>702</b>	760
	<u><b>          </b></u>	<u><b>          </b></u>
	<u><b>685</b></u>	<u><b>1,489</b></u>

PRC income tax is calculated in accordance with the relevant laws and regulations in the PRC.



## 6. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the (loss) profit attributable to shareholders of HK\$8,060,000 (1st April, 2000 to 30th September, 2000: a profit of HK\$6,991,000) and on the 1,214,115,987 shares in issue during each of the two periods.

No diluted earnings per share amount are presented as the exercise price of the outstanding share options were higher than the market price of the Company's shares for both periods.

## 7. CHANGES OF INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors have considered the carrying amount of the Group's investment properties at 30th June, 2001 and are of the opinion that the carrying amounts do not differ significantly from the open market value of the properties at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

During the period ended 30th June, 2001, the Group transferred its construction-in-progress of approximately HK\$136 million to the respective categories of property, plant and equipment as a result of the completion of the construction.

## 8. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	<b>30th June, 2001</b>	31st December, 2000
	<b>HK\$'000</b>	HK\$'000
Trade receivables		
0 - 60 days	<b>9,294</b>	3,092
61-90 days	7	—
> 90 days	—	422
	<hr/>	<hr/>
	<b>9,301</b>	3,514
Other receivables and prepayments	<b>14,105</b>	23,945
	<hr/>	<hr/>
	<b>23,406</b>	27,459
	<hr/> <hr/>	<hr/> <hr/>

## 9. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	<b>30th June, 2001 HK\$'000</b>	31st December, 2000 HK\$'000
Trade payables		
0 - 60 days	<b>17,440</b>	24,975
61 - 90 days	—	9
> 90 days	<b>822</b>	620
	<hr/>	<hr/>
	<b>18,262</b>	25,604
Other payables and accrued charges	<b>34,794</b>	25,732
Valued added tax payables	<b>1,007</b>	227
	<hr/>	<hr/>
	<b>54,063</b>	51,563
	<hr/> <hr/>	<hr/> <hr/>

WATER REPORT

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30th June, 2001. No interim dividend was paid for the six months ended 30th September, 2000.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The turnover of the Group for the six months ended 30th June, 2001 amounted to HK\$156,994,000, representing a decrease of 18.4% as compared with the previous six months ended 30th September, 2000. Loss attributable to shareholders for the period was HK\$8,060,000 and loss per share was 0.66 cents. For the previous six months ended 30th September, 2000, profit attributable to shareholders was HK\$6,991,000.

### Industrial Investment

Hangzhou B.P. Chemical Fibre Co., Ltd. ("Hangzhou B.P."), owned by the Group as to 55%, recorded a loss of HK\$23,785,000 for the period.

The loss was mainly due to the chemical fibre market stayed in the doldrums during the first half of 2001, thus lowering the selling prices. In response to the prevailing market condition, the board of directors of Hangzhou B.P. is currently arranging a new management structure for the company. The new management since appointed has been aggressive in adjusting the internal system for corporate management and expanding its market share. In order to increase competitiveness in the long run, Hangzhou B.P. has started a continuous viscose rayon project including expansion of production facilities and addition of advanced equipment. The Group is optimistic to market demand for viscose rayon and believe that the loss to Hangzhou B.P. is primarily due to cyclical fluctuations in prices in the chemical fibre market. In the long term, as long as quality of products and costing are effectively controlled, Hangzhou B.P. shall still be a mature industrial investment.

## Commercial Investment

The Group holds Shanghai Hong Qiao Friendship Shopping Center Co. Ltd. (“Shanghai Hong Qiao”) as to 30% equity interest.

The Shanghai retail industry has become increasingly competitive, thus further lowering the profit margin. The management of the shopping centre has, by reference to the geographical location and business environment of Shanghai Hong Qiao, marketed the target customers as high and middle-income groups. Meanwhile, it has also adopted several measures to improve the quality of its sales team, to lower operating costs and to increase its market competitiveness so as to continue the sales performance of Shanghai Hong Qiao. From 1st January, 2001 to 30th June, 2001, the total turnover of the Shanghai headquarters and Suzhou branch of Shanghai Hong Qiao amounted to RMB133,138,000. Although the Suzhou branch operates in a difficult situation and still incurred a loss, effort is being made to improve its operation by lowering its operating costs and leasing out vacant areas so as to increase the overall economic efficiency of Shanghai Hong Qiao for the coming year.

## Property Investment

The property market in Hong Kong was weak and there was fierce competition in the rental market in respect of new leasing contracts and contract renewals. However, the Group adopted flexible leasing and marketing strategies to maintain existing tenants and to attract new tenants. As a result, the Group’s Winsome Commercial Building situated in Yuen Long with a total gross floor area of 42,665 square feet, maintains an occupancy rate of 63% providing an average rental of approximately HK\$274,000 per month and a yield of approximately 5.8% per annum.

## FINANCIAL REVIEW

As at 30th June, 2001, the Group’s total shareholders funds amounted to HK\$579.9 million (31st December, 2000: HK\$587.9 million). Bank borrowings due within one year was HK\$92.7 million (31st December, 2000: HK\$98.1 million) and bank borrowings due after one year was HK\$134.5 million (31st December, 2000: HK\$134.5 million).

There is no net gearing for the Group as it was in net cash position throughout the period.

ANNUAL REPORT  
 INTERIM REPORT

As at 30th June, 2001, the Group had working capital of HK\$345.0 million (31st December, 2000: HK\$351.0 million) and a cash balance of HK\$401.6 million (31st December, 2000: HK\$387.3 million).

The capital structure of the Group has not been changed materially compared to those disclosed in the annual report of the Company for the nine months period ended 31st December, 2000.

The pledge on group assets have not been changed materially compared to those disclosed in the annual report of the Company for the nine months period ended 31st December, 2000.

Contingent liabilities of the Group have no material adverse changes compared to those disclosed in the annual report of the Company for the nine months period ended 31st December, 2000. It was concluded that these liabilities would not affect the Group's financial position by the fact that the guarantees given are insignificant and the Group has adequate funds to repay the bank loans if necessary.

The business activities of the Group are not exposed to fluctuations in exchange rates.

### **Staff**

At 30th June, 2001, the Group employed about 3,100 staff with remuneration for the period amounting to approximately HK\$27.5 million. The Group provides its staff with various benefits including discretionary bonus, provident fund and medical allowance. Staff training is also provided as and when required.

### **PROSPECT**

With the solid financial structure and asset portfolio, the Group will continue making its efforts in improving management quality, lowering operating costs and enhancing its competitiveness to ensure that the Group is on the right track for continued development. The assets of the Group, apart from current assets, are mainly allocated in Hangzhou B.P., Shanghai Hong Qiao and Winsome Commercial Building. Although Hangzhou B.P. incurred a loss due to cyclical factors, the overall asset structure of the Group is of sound quality. In relation to new investments, the Group will continue to take a prudent approach that its projects must provide attractive return, stable income and low risks.

The Group will utilise its available resources and with the support from its controlling shareholder, will gradually build up its asset portfolio comprising industrial, commercial and strategic investments. It is the Group's intention to grow steadily and to further expand and consolidate its earning base, so as to maximise shareholders' return.

## **SHARE OPTION SCHEME**

The Company adopted a share option scheme (the "Previous Option Scheme") expired on 4th December, 2000. The shareholders of the Company approved a new share option scheme (the "New Option Scheme") at the annual general meeting of the Company held on 19th June, 2001 (the Previous Option Scheme and the New Option Scheme, collectively the "Share Option Scheme"). Under the Share Option Scheme, the Directors may, at their discretion, invite all eligible employees (i.e. any executive director of the Group or any full-time employee as defined in the Share Option Scheme) of the Group to subscribe for shares of HK\$0.50 each (the "Share(s)") in the Company ("Poly Options") subject to the terms and conditions stipulated therein.

The Company considered that it is essential to its continued success that it is able to attract and motivate eligible employees of the right calibre and with the necessary experience to work for the Company. The adoption of the Share Option Scheme will enable the Group to provide incentive to the eligible employees of the Group by offering them an opportunity to participate in the growth of the Group.

Pursuant to the Previous Option Scheme, the Company has granted options to subscribe for the Shares and the particulars and the movements of which for the six months ended 30th June, 2001 are described below:

Date of grant	Exercise period	Exercise price per Share	Outstanding at 1.1.2001	Number of Shares subject to Poly Options			Outstanding at 30.6.2001
				Granted during the period	Exercised during the period	Lapsed during the period	
3.9.1997	3.9.1997 to 2.9.2007	HK\$1.27	48,400,000	—	—	1,000,000	47,400,000
5.6.1998	5.6.1998 to 4.6.2008	HK\$0.50	41,000,000	—	—	—	41,000,000
30.11.2000	30.11.2000 to 29.11.2010	HK\$0.50	31,300,000	—	—	—	31,300,000
			120,700,000	—	—	1,000,000	119,700,000

## DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2001, according to the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the following directors held options to subscribe for the number of shares of HK\$0.50 each (the "Share(s)") in the Company as follows:

Name of Director	Number of Shares subject to the options (Note 1)			Total
	Granted on 3.9.1997 (Note 2)	Granted on 5.6.1998 (Note 3)	Granted on 30.11.2000 (Note 4)	
Wang Jun	10,000,000	10,000,000	7,000,000	27,000,000
He Ping	10,000,000	10,000,000	7,000,000	27,000,000
Xie Da Tong	8,000,000	8,000,000	5,500,000	21,500,000
Li Shi Liang	—	—	8,400,000	8,400,000
Ji Jun (Note 5)	5,000,000	5,000,000	3,400,000	13,400,000

*Notes:*

1. All options were granted to the directors under the Previous Option Scheme of the Company without consideration.
2. The options granted on 3rd September, 1997 are exercisable from 3rd September, 1997 to 2nd September, 2007 (both days inclusive) at an exercise price of HK\$1.27 per Share.
3. The options granted on 5th June, 1998 are exercisable from 5th June, 1998 to 4th June, 2008 (both days inclusive) at an exercise price of HK\$0.50 per Share.
4. The options granted on 30th November, 2000 are exercisable from 30th November, 2000 to 29th November, 2010 (both days inclusive) at an exercise price of HK\$0.50 per Share.
5. Mr. Ji Jun resigned as Director and Deputy Managing Director of the Company on 31st May, 2001.



Save as disclosed above, at 30th June, 2001, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance which is required to be recorded in the register maintained under Section 29 of the SDI Ordinance or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

### SUBSTANTIAL SHAREHOLDERS

At 30th June, 2001, according to the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance, the following shareholders were interested in 10% or more of the issued share capital of the Company:

<b>Name of Shareholder</b>	<b>Number of Shares held</b>
Silver Spirit Enterprises Limited ( <i>Note 1</i> )	243,488,000
Golden Mountain Limited ( <i>Note 1</i> )	253,805,104
Silver Point Assets Limited ( <i>Notes 1 and 2</i> )	497,293,745
Continental Mariner Investment Company Limited ( <i>Notes 2 and 3</i> )	524,329,745
Source Holdings Limited ( <i>Notes 3, 4 and 5</i> )	524,329,745
Ting Shing Holdings Limited ( <i>Notes 3, 4 and 5</i> )	524,329,745
Ringo Trading Limited ( <i>Notes 4 and 5</i> )	524,329,745
China Poly Group Corporation ( <i>Note 5</i> )	524,329,745

*Notes:*

1. Silver Spirit Enterprises Limited and Golden Mountain Limited are wholly owned subsidiaries of Silver Point Assets Limited, which is deemed by the SDI Ordinance to be interested in 243,488,000 and 253,805,104 Shares of the Company beneficially owned by Silver Spirit Enterprises Limited and Golden Mountain Limited respectively.

2. Silver Point Assets Limited is the beneficial owner of 641 Shares of the Company. It is a wholly owned subsidiary of Continental Mariner Investment Company Limited (“CMIC”), which is deemed by the SDI Ordinance to be interested in 497,293,745 Shares beneficially owned by Silver Point Assets Limited.
3. Source Holdings Limited, the controlling shareholder of CMIC, is a subsidiary of Ting Shing Holdings Limited.
4. These companies are subsidiaries of China Poly Group Corporation, a state-owned enterprise established in the PRC.
5. These companies are deemed to be interested in the 524,329,745 Shares of the Company under the SDI Ordinance, by virtue of their interests in CMIC.

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 at 30th June, 2001.

#### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

#### **AUDIT COMMITTEE**

The members of the Audit Committee have reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial statements. At the request of the Directors, the Group’s external auditors have carried out a review of the unaudited interim financial statements in accordance with Statement of Auditing Standards 700.

INTERIM REPORT

## CODE OF BEST PRACTICE

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, 2001, in compliance with the “Code of Best Practice” as set out in Appendix 14 of the Listing Rules on the Stock Exchange except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s Articles of Association.

By Order of the Board

**LI Shi Liang**

*Managing Director*

Hong Kong, 21st September, 2001