



Poly Investments Holdings Limited

POLY INVESTMENTS  
HOLDINGS LIMITED

*Interim Report*

2002

POLY INVESTMENTS  
HOLDINGS LIMITED

## 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, 2002 together with comparative figures for the six months ended 30th June, 2001 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended</b>	
		<b>30th June, 2002</b>	30th June, 2001
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
Turnover	3	<b>171,937</b>	156,994
Cost of sales		<u><b>(152,765)</b></u>	<u>(145,955)</u>
Gross profit		<b>19,172</b>	11,039
Other revenue		<b>1,422</b>	1,550
Distribution costs		<b>(1,684)</b>	(739)
Administrative expenses		<b>(23,056)</b>	(21,676)
Loss on disposal of property, plant and equipment		<b>(9,913)</b>	–
Unrealised holding loss on other investments		<u>–</u>	<u>(350)</u>
Loss from operations	4	<b>(14,059)</b>	(10,176)
Finance costs		<b>(6,689)</b>	(9,527)
Share of profit of a jointly controlled entity		<u><b>1,411</b></u>	<u>1,624</u>
Loss before taxation		<b>(19,337)</b>	(18,079)
Taxation	5	<u><b>(512)</b></u>	<u>(685)</u>
Loss before minority interests		<b>(19,849)</b>	(18,764)
Minority interests		<u><b>7,646</b></u>	<u>10,704</u>
Loss for the period		<u><b>(12,203)</b></u>	<u>(8,060)</u>
Loss per share			
– Basic	6	<u><b>(1.01 cents)</b></u>	<u>(0.66 cents)</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

	Notes	30th June, 2002 HK\$'000 (unaudited)	31st December, 2001 HK\$'000 (audited)
<b>Non-Current Assets</b>			
Investment properties	7	62,716	62,716
Property, plant and equipment	7	284,563	309,149
Interest in a jointly controlled entity		46,794	48,061
Trademarks		561	748
Investments in securities		2,056	2,467
		<b>396,690</b>	<b>423,141</b>
<b>Current Assets</b>			
Inventories		51,657	58,245
Trade and other receivables	8	26,917	17,195
Investments in securities		–	1,735
Short-term loans receivable		12,151	12,160
Tax recoverable		245	–
Pledged bank deposits		12,377	11,700
Bank balances, deposits and cash		405,212	406,714
		<b>508,559</b>	<b>507,749</b>
<b>Current Liabilities</b>			
Trade and other payables	9	69,057	67,012
Amount due to a minority shareholder of a subsidiary		63,418	64,046
Taxation payable		–	182
Bank borrowings – due within one year		176,632	183,630
		<b>309,107</b>	<b>314,870</b>
Net Current Assets		<b>199,452</b>	<b>192,879</b>
Total Assets Less Current Liabilities		<b>596,142</b>	<b>616,020</b>
<b>Non-Current Liability</b>			
Bank borrowings – due after one year		11,110	11,139
		<b>585,032</b>	<b>604,881</b>
<b>Capital and Reserves</b>			
Share Capital		607,058	607,058
Deficit		(57,395)	(45,192)
Minority Interests		549,663	561,866
		35,369	43,015
		<b>585,032</b>	<b>604,881</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended</b>	
	<b>30th June, 2002 HK\$'000 (unaudited)</b>	30th June, 2001 HK\$'000 (unaudited)
Net cash from operating activities	<b>3,285</b>	23,484
Net cash used in investing activities	<b>(377)</b>	(6,583)
Net cash used in financing activities	<b>(4,410)</b>	(2,583)
Net (decrease) increase in cash and cash equivalents	<b>(1,502)</b>	14,318
Cash and cash equivalents at beginning of the period	<b>406,714</b>	387,299
Cash and cash equivalents at end of the period	<b>405,212</b>	401,617

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Translation reserve	Statutory surplus reserve	Enterprise expansion fund	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2001	607,058	2,252	6,552	2,559	663	(31,148)	587,936
Loss for the period	-	-	-	-	-	(8,060)	(8,060)
At 30th June, 2001	<u>607,058</u>	<u>2,252</u>	<u>6,552</u>	<u>2,559</u>	<u>663</u>	<u>(39,208)</u>	<u>579,876</u>
At 1st January, 2002	607,058	2,252	6,552	2,827	663	(57,486)	561,866
Loss for the period	-	-	-	-	-	(12,203)	(12,203)
At 30th June, 2002	<u>607,058</u>	<u>2,252</u>	<u>6,552</u>	<u>2,827</u>	<u>663</u>	<u>(69,689)</u>	<u>549,663</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

### 2. Principal accounting policies

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except that in the current period, the Group has adopted, for the first time, a number of new and revised SSAP(s) issued by HKSA. The adoption of the new and revised SSAP(s) has resulted in a change in the format of presentation of the cash flow statement, but has had no material effect on the results for the current or prior periods. Accordingly, no prior period adjustment has been required.

### 3. Turnover and segment information

The Group is principally engaged in the manufacture and trading of chemical fibres in the People's Republic of China (the "PRC"). All the identifiable assets of the Group are principally located in the PRC. Accordingly, no segmental analysis is presented.

### 4. Loss from operations

<b>Six months ended</b>	
<b>30th June, 2002</b>	30th June, 2001
<b>HK\$'000</b>	HK\$'000
<b>(unaudited)</b>	(unaudited)

Loss from operations has been arrived  
at after charging (crediting):

Amortisation of trademarks (included in administrative expenses)	187	186
Depreciation and amortisation of property, plant and equipment	16,227	11,263
Dividend income from listed investments	-	(181)
Interest income from investments	(3,750)	(10,596)
Interest income, other than from investments	(536)	(844)
	<u>          </u>	<u>          </u>

5. Taxation

Six months ended	
30th June, 2002	30th June, 2001
<i>HK\$'000</i>	<i>HK\$'000</i>
(unaudited)	(unaudited)

The charge (credit) comprises:

Overprovision of PRC income tax in prior period	(120)	(17)
Share of PRC income tax of a jointly controlled entity	632	702
	<u>512</u>	<u>685</u>

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

6. Loss per share

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$12,203,000 (1st January, 2001 to 30th June, 2001: HK\$8,060,000) and on the 1,214,115,987 shares in issue during each of the two periods.

The computation of diluted loss per share does not assume the exercise of share options as the exercise price of the outstanding share options were higher than the market price of the Company's shares during both periods.

7. Changes of investment properties and property, plant and equipment

At 30th June, 2002, the directors have considered the carrying amount of the Group's investment properties 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, 2002, the Group disposed certain of its property, plant and equipment with net book value of approximately HK\$9,913,000 as a result of relocation of Group's plant and equipment.

**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, 2002</b>	31st December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(audited)
Trade receivables		
0-60 days	22,217	11,983
61-90 days	30	166
Over 90 days	39	632
	<u>22,286</u>	<u>12,781</u>
Other receivables	4,631	4,414
	<u>26,917</u>	<u>17,195</u>

**9. Trade and other payables**

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

	<b>30th June, 2002</b>	31st December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(audited)
Trade payables		
0-60 days	17,889	13,072
61-90 days	40	2
Over 90 days	198	439
	<u>18,127</u>	<u>13,513</u>
Other payables	48,776	52,217
Value added tax payable	2,154	1,282
	<u>69,057</u>	<u>67,012</u>



## INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2002. No interim dividend was paid for the six months ended 30th June, 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The turnover of the Group for the six months ended 30th June, 2002 amounted to HK\$171,937,000, representing an increase of 9.5% as compared with previous six months ended 30th June, 2001. Loss for the period was HK\$12,203,000 and loss per share was 1.01 cents. The loss was mainly attributable to the share by the Group of the loss of a manufacturing subsidiary amounting to approximately HK\$9,345,000, representing 55% of the total loss of approximately HK\$16,991,000.

### Industrial Investment

Hangzhou B.P. Chemical Fibre Co., Ltd. ("Hangzhou B.P."), owned by the Group as to 55%, recorded a turnover of approximately HK\$164,905,000 and a loss of approximately HK\$16,991,000.

The market environment in the first half of the year 2002 was difficult to Hangzhou B.P.. With the strict implementation of production cost control measures and the efforts of Hangzhou B.P. to expand the market share, it is confident that Hangzhou B.P. will be able to reduce its loss in the future.

### Commercial Investment

The Group is currently holding 30% equity interests in Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao").

The Shanghai retail industry has become increasingly competitive, thus further lowering the profit margin. The management of the shopping center 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. For the six months ended 30th June, 2002, the total turnover of the Shanghai headquarters and Suzhou branch of Shanghai Hong Qiao amounted to approximately RMB214,179,000. 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 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 approximately 42,665 square feet, maintains an occupancy rate of about 54% and providing an average rental of approximately HK\$238,000 per month and a yield of approximately 5.3% per annum.

## FINANCIAL REVIEW

As at 30th June, 2002, shareholders' funds of the Group totaled HK\$549,663,000 (31st December, 2001: HK\$561,866,000), while the net asset value per share was HK\$0.453 (31st December, 2001: HK\$0.463). As at 30th June, 2002, the Group had an excess of bank balances over total bank loans by HK\$217,470,000 (31st December, 2001: HK\$211,945,000). As at 30th June, 2002, the Group had outstanding bank loans of HK\$187,742,000. In terms of maturity, the outstanding bank loans can be divided into HK\$176,632,000 to be repaid within one year and HK\$11,110,000 to be repaid after one year.

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. Besides, the Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. As the Hong Kong dollars is linked to the US dollars, and the exchange rate between Hong Kong dollars and Renminbi slightly fluctuates, the Group believes that its exposure to foreign exchange risks is not material.

A majority of the Group's bank borrowings are subject to fixed interest rates.

As at 30th June, 2002, the Group had working capital of HK\$199,452,000 and bank balances of HK\$405,212,000 (31st December, 2001: HK\$192,879,000 and HK\$406,714,000 respectively). In view of the Group's current cash balances, available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

During the period, any cash available is placed in banks as interest-earning deposits before committed to any substantial investment. Liabilities of the Group mainly comprise the bank loans and other borrowings by a subsidiary in the PRC.

### **PLEDGE OF ASSETS**

The pledge of group assets have not been changed materially compared to those disclosed in the annual report of the Company for the year ended 31st December, 2001.

### **CONTINGENT LIABILITIES**

Contingent liabilities of the Group have no material adverse changes compared to those disclosed in the annual report of the Company for the year ended 31st December, 2001.

### **STAFF**

As at 30th June, 2002, the Group had about 2,700 employees in the PRC. A total remuneration of approximately HK\$18,000,000 was paid for the period. Benefits offered by the Group to its employees included, among others, discretionary bonus, provident fund and medical insurance. Training will also be provided as appropriate.

### **PROSPECT**

In view of the challenging operating environment the Group is facing, the management will continue to adopt a prudent business management strategy. Various measures have been taken to enhance the business performance of the Group's investments and the management is optimistic that the results of these investments will improve in the coming years. As for new investments, the Group will continue with its prudent approach in identifying projects with good potential.

## SHARE OPTION SCHEME

Following the expiration of the share option scheme dated 5th December, 1990 (the "Previous Option Scheme") of the Company on 4th December, 2000, the shareholders of the Company approved a new share option scheme (the "New Option Scheme") at the extraordinary 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 subject to the terms and conditions stipulated therein.

The Company considered that it is essential to its continual 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, 2002 are described below:

Date of grant	Exercise period	Exercise price per Share	Outstanding at 1.1.2002	Number of Shares subject to the options			Outstanding at 30.6.2002 <i>(Note)</i>
				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	47,400,000	-	-	-	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
			119,700,000	-	-	-	119,700,000

Note: Subsequent to the period ended 30th June 2002, all the outstanding options were cancelled on 22nd July, 2002.

## DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2002, 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 Shares in the Company:

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 (Note 5)	10,000,000	10,000,000	7,000,000	27,000,000
He Ping (Note 6)	10,000,000	10,000,000	7,000,000	27,000,000
Xie Da Tong (Note 7)	8,000,000	8,000,000	5,500,000	21,500,000
Li Shiliang (Note 8)	–	–	8,400,000	8,400,000

Notes:

- All options were granted to the directors under the Previous Option Scheme of the Company without consideration.
- 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.
- 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.
- 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.
- Mr. Wang Jun resigned as Chairman and Director of the Company on 22nd July, 2002 and the options held by him were cancelled on the same date.
- Mr. He Ping resigned as Vice-Chairman and Director of the Company on 22nd July, 2002 and the options held by him were cancelled on the same date.
- Mr. Xie Da Tong resigned as Director of the Company on 22nd July, 2002 and the options held by him were cancelled on the same date.
- Mr. Li Shiliang resigned as Managing Director of the Company on 22nd July, 2002 and the options held by him were cancelled on the same date.

Save as disclosed above, at 30th June, 2002, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in 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, 2002, 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:

Name of Shareholder	Number of Shares held
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 (“CMIC”) ( <i>Notes 2 and 3</i> )	559,197,745
Source Holdings Limited ( <i>Notes 3, 4 and 5</i> )	559,197,745
Ting Shing Holdings Limited ( <i>Notes 3, 4 and 5</i> )	559,197,745
Ringo Trading Limited ( <i>Notes 4 and 5</i> )	559,197,745
China Poly Group Corporation ( <i>Note 5</i> )	559,197,745

*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 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 559,197,745 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, 2002.

## **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**

Mr. Seto Gin Chung, John, Mr. Fung Wing Cheung, Tony, Mr. Zhuang Shouchang, Mr. Ip Chun Chung, Robert and Mr. Lam Tak Shing resigned as independent non-executive directors and members of the Audit Committee of the Company with effect from 22nd July, 2002. Mr. Kwok Ming Fai and Mr. Sun Ka Ziang, Henry, the new independent non-executive directors of the Company were appointed as members of the Audit Committee on 10th August, 2002.

The new 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.

## **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, 2002, in compliance with the "Code of Best Practice" as set out in Appendix 14 of the Listing Rules 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  
**Lau Yuen Sun, Adrian**  
*Executive Director*

Hong Kong, 18th September, 2002