

Corporate Information

Directors

Executive

Tang To (*Chairman*)
Zhou Junqing
Wong Yiu Ming

Non-Executive

Tang Kwan (*Honorary Chairman*)
Shi Shanbo (*Vice Chairman*)
Kan Wai Wah

Independent Non-Executive

Liang Shangli
Yip Jeffery

Audit Committee Members

Liang Shangli
Yip Jeffery

General Manager

Wong Yiu Ming

Company Secretary

Wu Yuk Kwai

Registered Office

8th Floor, Tai Tung Industrial Building
29-33 Tsing Yi Road
Tsing Yi Island
New Territories
Hong Kong
Tel : 2376-6188
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Website: www.cosmel.com
E-mail: cmel@cosmel.com

Principal Bankers

Bank of China (Hong Kong) Limited
The Hongkong & Shanghai
Banking Corporation Limited

Solicitors

Woo, Kwan, Lee & Lo

Joint Auditors

Deloitte Touche Tohmatsu
Ting Ho Kwan & Chan

Share Registrars

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code : 118

Condensed Consolidated Income Statement

Interim Results

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, 2002 with comparative figures for the corresponding period in 2001 are as follows:

Condensed Consolidated Income Statement

| | | Six months ended 30th June, | |
|---|-------|---------------------------------|---------------------------------|
| | Notes | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Turnover | 2 | 585,937 | 657,048 |
| Cost of sales | | (445,861) | (526,881) |
| Gross profit | | 140,076 | 130,167 |
| Other revenue | | 17,346 | 13,855 |
| Distribution costs | | (41,584) | (47,797) |
| Administrative expenses | | (84,290) | (109,737) |
| Other operating expenses | | (936) | (1,501) |
| Allowance for bad and doubtful debts | | - | (11,428) |
| Profit (loss) from operations | 3 | 30,612 | (26,441) |
| Finance costs | | (9,483) | (12,343) |
| Investment income | | 537 | 1,161 |
| (Loss) gain on disposal of subsidiaries | | (1,316) | 4,654 |
| Loss on disposal of associates | | - | (788) |
| Share of results of associates | | 6,223 | 6,845 |
| Profit (loss) before taxation | | 26,573 | (26,912) |
| Taxation | 4 | 5,294 | 3,239 |
| Profit (loss) before minority interests | | 21,279 | (30,151) |
| Minority interests | | 10,768 | 6,345 |
| Net profit (loss) for the period | | 10,511 | (36,496) |
| Earnings (loss) per share - basic | 5 | 1.6 cents | (5.7 cents) |

Condensed Consolidated Balance Sheet

Condensed Consolidated Balance Sheet

| | Notes | 30th June, 2002 (Unaudited) HK\$'000 | 31st December, 2001 (Audited) HK\$'000 |
|--|-------|---|---|
| Non-current Assets | | | |
| Investment properties | | 24,400 | 24,400 |
| Property, plant and equipment | | 428,682 | 442,086 |
| Goodwill | | 3,339 | 3,825 |
| Negative goodwill | | (593) | (1,062) |
| Interests in associates | | 68,616 | 59,539 |
| Investments in securities | | 12,127 | 12,116 |
| | | <u>536,571</u> | <u>540,904</u> |
| Current Assets | | | |
| Inventories | | 378,948 | 383,592 |
| Trade and other receivables | 8 | 491,296 | 409,003 |
| Bills receivable | | 1,082 | 4,045 |
| Tax recoverable | | 1,386 | 2,357 |
| Pledged bank deposits | | 1,097 | 1,107 |
| Bank balances and cash | | 65,365 | 54,061 |
| | | <u>939,174</u> | <u>854,165</u> |
| Current Liabilities | | | |
| Trade and other payables | 9 | 407,358 | 374,307 |
| Bills payable | | 89,011 | 63,528 |
| Amounts due to associates | | 579 | 579 |
| Tax payable | | 3,913 | 3,374 |
| Borrowings – due within one year | | 172,359 | 179,080 |
| Obligations under finance leases and hire purchase contracts – due within one year | | 6,228 | 7,801 |
| Bank overdrafts | | 38,073 | 23,603 |
| | | <u>717,521</u> | <u>652,272</u> |
| Net Current Assets | | <u>221,653</u> | <u>201,893</u> |
| | | <u>758,224</u> | <u>742,797</u> |
| Capital and Reserves | | | |
| Share capital | 10 | 256,335 | 256,335 |
| Reserves | 13 | 331,661 | 323,519 |
| | | <u>587,996</u> | <u>579,854</u> |
| Minority interests | | <u>154,187</u> | <u>142,027</u> |
| Non-current Liabilities | | | |
| Borrowings – due after one year | | 8,923 | 12,394 |
| Obligations under finance leases and hire purchase contracts – due after one year | | 6,874 | 8,278 |
| Deferred taxation | | 244 | 244 |
| | | <u>16,041</u> | <u>20,916</u> |
| | | <u>758,224</u> | <u>742,797</u> |

Condensed Consolidated Statement of Changes in Equity

Condensed Consolidated Statement of Changes in Equity

| | | For the six months ended 30th June, | |
|---|-------|--|---------------------------------|
| | Notes | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Total equity at 1st January | | 579,854 | 672,697 |
| Changes in accounting policy | | - | (4,215) |
| Restated balances | | 579,854 | 668,482 |
| Exchange differences arising from translation of overseas operations | 13 | (2,370) | (2,282) |
| Net loss not recognised in the consolidated income statement | | (2,370) | (2,282) |
| Net profit (loss) for the period | | 10,511 | (36,496) |
| Realised on disposal of subsidiaries | 13 | 1 | - |
| Issue of share capital | | - | 2 |
| | | 10,512 | (36,494) |
| Total equity at 30th June | | 587,996 | 629,706 |

Condensed Consolidated Cash Flow Statement

Condensed Consolidated Cash Flow Statement

For the six months ended
30th June,

| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
|---|---------------------------------|---------------------------------|
| NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES | 26,879 | (38,280) |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | (23,641) | (19,595) |
| NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES | <u>(6,181)</u> | <u>16,681</u> |
| DECREASE IN CASH AND CASH EQUIVALENTS | (2,943) | (41,194) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 30,458 | 60,813 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | <u>(223)</u> | <u>(915)</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | <u><u>27,292</u></u> | <u><u>18,704</u></u> |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 65,365 | 60,946 |
| Bank overdrafts | <u>(38,073)</u> | <u>(42,242)</u> |
| | <u><u>27,292</u></u> | <u><u>18,704</u></u> |

Notes

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 ("SSAP") 25 Interim financial reporting. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31st December, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants:

| | | |
|-------------------|---|--------------------------------------|
| SSAP 1 (revised) | : | Presentation of financial statements |
| SSAP 11 (revised) | : | Foreign currency translation |
| SSAP 15 (revised) | : | Cash flow statements |
| SSAP 34 | : | Employee benefits |

There is no material impact on the financial results and the financial position of the Group by the adoption of the above new and revised SSAPs. Certain comparative figures have been reclassified to conform to the current period's presentation.

Notes to the Condensed Consolidated Financial Statements

2. Segmental information

The Group's turnover and contribution to profit (loss) from operations for the six months ended 30th June, 2002 and analysed by business segment and geographical market are as follows:

| | Turnover | | Contribution to profit (loss) | |
|--|------------------|----------------|-------------------------------|-----------------|
| | Six months ended | | from operations | |
| | 30th June, | | Six months ended | |
| | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| By business segment: | | | | |
| Industrial consumables | 93,458 | 105,943 | 10,906 | (34,462) |
| Plastic processing/products | 74,184 | 99,768 | 5,995 | 17,622 |
| Industrial machinery | 253,985 | 222,049 | 32,812 | 10,741 |
| Electronic products | 56,176 | 118,229 | (11,012) | (8,553) |
| Printed circuit boards | 96,344 | 91,656 | 6,105 | 4,505 |
| Other operations | 11,790 | 19,403 | (1,374) | (5,814) |
| | <u>585,937</u> | <u>657,048</u> | <u>43,432</u> | <u>(15,961)</u> |
| Unallocated corporate expenses | | | (12,820) | (10,480) |
| Profit (loss) from operations | | | 30,612 | (26,441) |
| Finance costs | | | (9,483) | (12,343) |
| Investment income | | | 537 | 1,161 |
| (Loss) gain on disposal of subsidiaries | | | (1,316) | 4,654 |
| Loss on disposal of associates | | | - | (788) |
| Share of results of associates | | | 6,223 | 6,845 |
| Profit (loss) before taxation | | | <u>26,573</u> | <u>(26,912)</u> |
| By geographical market: | | | | |
| Hong Kong | 192,855 | 166,436 | 22,896 | (15,103) |
| The People's Republic of China (the "PRC") excluding Hong Kong | 276,443 | 219,811 | 26,864 | (10,539) |
| Other Asia-Pacific countries | 62,862 | 140,243 | (5,282) | 5,465 |
| Europe | 36,254 | 94,787 | 1,028 | 6,318 |
| North America | 17,523 | 35,771 | (2,074) | (2,102) |
| | <u>585,937</u> | <u>657,048</u> | <u>43,432</u> | <u>(15,961)</u> |
| Unallocated corporate expenses | | | (12,820) | (10,480) |
| Profit (loss) from operations | | | <u>30,612</u> | <u>(26,441)</u> |

Notes to the Condensed Consolidated Financial Statements

3. Profit (loss) from operations

| | For the six months ended 30th June, | |
|--|--|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Profit (loss) from operations has been arrived at after charging: | | |
| Depreciation and amortisation | | |
| Depreciation and amortisation on: | | |
| Owned assets | 25,500 | 24,443 |
| Assets held under finance leases and hire purchase contracts | 2,554 | 3,448 |
| Amortisation of goodwill (included in other operating expenses) | 936 | 1,501 |
| Loss on disposal of property, plant and equipment | 2,046 | 1,113 |
| and after crediting: | | |
| Release of negative goodwill to income (included in other revenue) | 351 | 3,213 |

4. Taxation

| | For the six months ended 30th June, | |
|---|--|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| The charge comprises: | | |
| Hong Kong Profits Tax | 2,992 | 1,183 |
| Overseas taxation | 1,633 | 1,165 |
| Deferred taxation | - | 210 |
| Taxation attributable to the Company and its subsidiaries | 4,625 | 2,558 |
| Share of tax on results of associates | 669 | 681 |
| | <u>5,294</u> | <u>3,239</u> |

Hong Kong Profits Tax is calculated at 16% (2001: 16%) on the estimated assessable profit for the period.

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

Notes to the Condensed Consolidated Financial Statements

5. Earnings (loss) per share

The calculation of the basic earnings (loss) per share for the period is based on the net profit for the period of approximately HK\$10,511,000 (2001: loss of approximately HK\$36,496,000) and on the weighted average number of shares in issue during the period of 640,838,234 (2001: 640,831,772).

The computation of diluted earnings (loss) per share for period ended 30th June, 2002 or 2001 does not assume the exercise of options and warrants because the exercise price of the Company's options and warrants were higher than the average market price of shares for both periods.

6. Interim dividend

The Board has resolved not to declare an interim dividend in respect of the six months ended 30th June, 2002 (2001: Nil).

7. Property, plant and equipment

During the period, the group has acquired property, plant and equipment amounting to approximately HK\$24,701,000.

8. 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\$385,817,000 (31st December, 2001: approximately HK\$317,281,000) and their aging analysis is as follows:

| | 30th June, 2002 HK\$'000 | 31st December, 2001 HK\$'000 |
|---------------|--------------------------------|------------------------------------|
| 0 to 3 months | 244,825 | 199,796 |
| 4 to 6 months | 44,261 | 38,337 |
| 7 to 9 months | 24,888 | 17,997 |
| Over 9 months | 71,843 | 61,151 |
| | <u>385,817</u> | <u>317,281</u> |

Notes to the Condensed Consolidated Financial Statements

9. Trade and other payables

Included in trade and other payables are trade payables of approximately HK\$235,745,000 (31st December, 2001: approximately HK\$215,761,000) and their aging analysis is as follows:

| | 30th June, 2002 HK\$'000 | 31st December, 2001 HK\$'000 |
|---------------|--------------------------------|------------------------------------|
| 0 to 3 months | 172,681 | 119,476 |
| 4 to 6 months | 23,872 | 40,408 |
| 7 to 9 months | 13,911 | 19,521 |
| Over 9 months | 25,281 | 36,356 |
| | <u>235,745</u> | <u>215,761</u> |

10. Share capital

| | Number of ordinary shares | Value HK\$'000 |
|--|------------------------------|-------------------|
| Ordinary shares of HK\$0.40 each | | |
| Authorised: | | |
| At 1st January, 2002 and 30th June, 2002 | <u>1,000,000,000</u> | <u>400,000</u> |
| Issued and fully paid: | | |
| At 1st July, 2001 and at 30th June, 2002 | <u>640,838,234</u> | <u>256,335</u> |

11. Warrants

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 6th June, 2001, a bonus issue of warrants on the basis of one warrant for every five shares of HK\$0.40 each held by shareholders on the register of members of the Company as at 6th June, 2001 was approved. A total of 128,166,286 unit of warrants with an aggregate subscription amount of approximately HK\$51,266,514 were issued on 11th June, 2001. Each warrant confers rights to the registered holder to subscribe for one new share of the Company in cash at an initial subscription price of HK\$0.40 per share, subject to adjustment, at any time from the date of issue to 10th June 2003 (both years inclusive).

At 30th June, 2002, the Company had outstanding warrants conferring rights to subscribe for up to approximately HK\$51,263,794 in cash for shares. Exercise in full of these outstanding warrants would, under the share capital structure of the Company as of 30th June, 2002, result in the issue of 128,159,486 new shares of HK\$0.40 each in the Company.

There was no exercise of the Company's warrants during the period.

Notes to the Condensed Consolidated Financial Statements

12. Share options

At 30th June, 2002, the following options to subscribe for shares of the Company were outstanding under the Company's share option scheme:

| Date of grant | Exercise price | Number of share options outstanding as at 30.6.2002 |
|---------------|----------------|---|
| | HK\$ | |
| 23.6.2001 | 0.41 | 12,200,000 |

The options granted 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.

13. Reserves

| | Share premium | Asset revaluation reserve | Translation reserve | Statutory reserve | Retained profits | Total |
|--|----------------|---------------------------|---------------------|-------------------|------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st January, 2002 | 267,149 | 49,965 | (12,162) | 594 | 17,973 | 323,519 |
| Exchange differences arising from translation of overseas operations | - | - | (2,370) | - | - | (2,370) |
| Realised on disposal of subsidiaries | - | - | 1 | - | - | 1 |
| Profit for the year | - | - | - | - | 10,511 | 10,511 |
| At 30th June, 2002 | <u>267,149</u> | <u>49,965</u> | <u>(14,531)</u> | <u>594</u> | <u>28,484</u> | <u>331,661</u> |

Notes to the Condensed Consolidated Financial Statements

14. Operating lease commitments

The Group as lessee

| | 30th June, 2002 HK\$'000 | 30th June, 2001 HK\$'000 |
|--|--------------------------------|--------------------------------|
| Minimum lease payments during the period under operating leases in respect of: | | |
| Land and buildings | 6,200 | 5,028 |
| Plant and machinery | 284 | 392 |
| | <u>6,484</u> | <u>5,420</u> |

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 30th June, 2002 HK\$'000 | 31st December, 2001 HK\$'000 |
|---------------------------------------|--------------------------------|------------------------------------|
| Within one year | 11,039 | 8,972 |
| In the second to fifth year inclusive | 38,754 | 33,495 |
| Over five years | 78,026 | 73,622 |
| | <u>127,819</u> | <u>116,089</u> |

Operating lease payments represent payable by the Group for certain of its office properties and factories. Leases are negotiated for an average term of 2-10 years and rental are fixed for an average of 2-10 years.

The Group as lessor

Property rental income earned during the period was approximately HK\$1,659,000 (2001: approximately HK\$1,643,000). The remaining properties are expected to generate rental yields of 10% (2001: 10%) on an ongoing basis. All of the properties held have committed tenants for the next 1-2 years.

Notes to the Condensed Consolidated Financial Statements

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | 30th June, 2002 HK\$'000 | 31st December, 2001 HK\$'000 |
|---------------------------------------|--------------------------------|------------------------------------|
| Within one year | 2,341 | 1,810 |
| In the second to fifth year inclusive | 1,651 | 261 |
| | <u>3,992</u> | <u>2,071</u> |

15. Other commitments

| | 30th June, 2002 HK\$'000 | 31st December, 2001 HK\$'000 |
|---|--------------------------------|------------------------------------|
| Capital expenditure contracted for but not provided in the financial statements in respect of: | | |
| Acquisition of property, plant and equipment | 2,130 | 2,268 |
| Investments | - | 713 |
| | <u>2,130</u> | <u>2,981</u> |
| Capital expenditure authorize but not contracted for in respect of the acquisition of property, plant and equipment | - | 1,598 |

16. Contingent liabilities

| | 30th June, 2002 HK\$'000 | 31st December, 2001 HK\$'000 |
|--|--------------------------------|------------------------------------|
| Guarantees given to financial institutions in respect of credit facilities utilised by outsiders | <u>7,271</u> | <u>11,175</u> |

Notes to the Condensed Consolidated Financial Statements

17. Transactions and balances with related parties

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

| | 30th June, 2002 HK\$'000 | 30th June, 2001 HK\$'000 |
|--|--------------------------------|--------------------------------|
| Substantial shareholder and its subsidiaries: | | |
| Licence fee paid (note i) | 931 | 1,215 |
| Sales of goods (note iii) | - | 790 |
| EDP charges received (note i) | 83 | 83 |
| Management fee paid (note i) | 1,166 | 1,388 |
| Companies controlled by certain directors: | | |
| Management fee paid (note i) | 498 | 777 |
| EDP charges received (note i) | 26 | 26 |
| Minority shareholders: | | |
| Rental payment (note i) | 1,104 | 956 |
| Consultancy fee paid (note i) | 38 | 114 |
| Management fee paid (note i) | - | 93 |
| Interest paid (note iv) | 810 | 650 |
| Acquisition of additional interest in a subsidiary (note ii) | - | 3,200 |
| Associates: | | |
| Purchase of raw materials (note iii) | - | 5,173 |
| Sales of goods (note iii) | - | 1,428 |
| Rental income (note i) | 93 | - |
| Management fee received (note i) | - | 23 |
| Management fee paid (note i) | - | 240 |

Notes to the Condensed Consolidated Financial Statements

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

| | 30th June, 2002 HK\$'000 | 31st December, 2001 HK\$'000 |
|--|--------------------------------|------------------------------------|
| Substantial shareholder and its subsidiaries | | |
| Balance due by the Group as at balance sheet date (note vi) | 6,518 | 6,156 |
| Balance due to the Group as at balance sheet date (note vi) | 201 | 139 |
| Minority shareholders: | | |
| Balance due by the Group as at balance sheet date (note vii) | 18,913 | 22,659 |
| Balance due to the Group as at balance sheet date (note vi) | 16,442 | 11,870 |
| Associates: | | |
| Balance due by the Group as at balance sheet date (note v) | 579 | 579 |
| Balance due to the Group as at balance sheet date (note v) | 10,891 | 10,674 |

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 4% to 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 HK\$14,363,027 which bears interest at 4% to 10% per annum, the remaining balances are interest free.

18. Comparative figures

Certain comparative figures have been reclassified to conform to 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\$585,937,000. Since the business of electronic products was undergoing a stage of rationalization and the results of plastic processing business were unfavorable. As a result, a decrease in turnover of approximately 11% over the corresponding period last year, representing approximately HK\$71,111,000, was recorded. During the period under review, operating profit of approximately HK\$30,612,000 and the net profit attributable to shareholders of approximately HK\$10,511,000 was recorded.

Confronted by the adverse market conditions last year, the Group's management conducted a vigorous and earnest review of our business, and implemented a contingency plan that successfully optimized our assets and controlled and reduced various overheads and costs of production. Although the market remained sluggish on the whole in the first half of 2002, the Group showed an improvement in consolidated performance and a turnaround to profit, thanks to the concerted efforts of our staff. The profit after tax during the period was approximately HK\$21,279,000.

The machinery business demonstrated the most remarkable improvement among all of our businesses. In spite of a sales volume similar to that of last year and a keen competition in the market, the machinery business managed to post a satisfactory profit in the first half of the year via effective cost control measures and an optimized management team. The new series of plastic injection moulding machines, which are more competitive than ever, have been well received since their market launch in the second half of the year. In April 2002, the Group and Japan's UBE Machinery Corporation Ltd. ("UBE") entered into a technology transfer agreement, pursuant to which the Group was licensed to manufacture UBE's extra large injection moulding machine series targeting mainly the PRC automobile component market. Preparations are now underway and the first batch of products will be ready for delivery at the end of the year. The Group believes that these new series will become a new source of growth for our machinery business. Besides, the Group will also strengthen its technological development by setting up a technology development center. In addition to researching and developing new products on plastic processing machinery, the Group will invest in the development of precise metal forming machinery for the purpose of further strengthening our core businesses.

Owing to the significant fluctuation in plastic resin prices this year, profit from the plastic processing business was to an extent affected during the year. We believe, however, that this business will be able to perform better in the latter half of the year. Construction of the processing plant for plastic hygienic food containers and cutlery in Zhuhai commenced at the beginning of the year. It is anticipated that this plant will be ready for commercial production early next year when this will lay a new and solid foundation for our expansion into professional plastic processing business. The custom moulding plants established in cities like Shenyang City in Liaoning Province, Shuofang City in Jiangsu Province and Dongguan last year have all registered reasonable profits. In June this year, the Group set up a joint venture for plastic processing plant in Dalian Development Area with Dalian Bingshan Rubber & Plastics Co. Ltd.. This plant, which is scheduled to be completed in early next year, will supply plastic components to major home appliance makers in the area. Meanwhile, the plastic plant in Hefei, which began production in September this year, is supplying different plastic components to home appliance enterprises in Anhui Province and its surrounding regions. The Group believes that plastic products and the custom moulding business will gain new momentum for the Group in the years to come.

The audio and electronic business remained hampered by the adverse market conditions, resulting in an operating loss during the first half of the year. The management is taking serious steps to streamline this business so as to adapt to the new market competition and strive for a turnaround.

The printed circuit board business has been undergoing new market exploration since its expansion of production scale late last year. As a result of this exploration, the business managed to avoid the computer market depression and penetrate the European, US and Southeast Asian markets with both order number and profit reaching targets in the first half of the year. The Group is confident about achieving more satisfactory results in the next half of the year.

The trading business attained a turnaround to profit in the first half of the year following the completion of asset rationalization. In particular, the industrial consumables posted satisfactory results in the PRC market. Capitalizing on the existing foundation, this business will be able to make long-term profit contribution to the Group.

Prospects

As in all unfavorable market conditions in the past, the Company has always adopted a pragmatic approach by realigning its business in response to the latest market changes. Building on the coordinated efforts of our staff and our reinforced and optimized management team, we are confident that the Group will be able to make further result improvements for the rest of the year.

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, 2002 was 2.7% (31st December, 2001: 3.6%) which was calculated based on long term borrowings of approximately HK\$15,797,000 (31st December, 2001: approximately HK\$20,672,000) and shareholders' funds of approximately HK\$587,996,000 (31st December, 2001: approximately HK\$579,854,000).

Other Information

Change of Directors

Mr. SHI Shanbo has been appointed as vice chairman and non-executive director of the Company with effect from 17th September, 2002. On the same day, Mr. WU Jun has resigned from the office of vice chairman and non-executive director of the Company.

Share Option Scheme

Pursuant to the share option scheme (the "Share Option Scheme") of the Company adopted on 13th June, 1997, there were 12,200,000 share options (the "Share Options") granted to directors and employees of the Group to subscribe for shares (the "Shares") of the Company. As at 30th June, 2002, there were 12,200,000 Share Options remained outstanding under the Share Option Scheme. The following table discloses movements of the number of Share Options during the period:

| Name | Number of Share Options | | | Outstanding as at 30th June, 2002 | Exercise price (HK\$) |
|------------------------------|---|------------------------------|--------------------------------|---|--------------------------|
| | Outstanding as at 1st January, 2002 | Granted during the period | Exercised during the period | | |
| Tang To | 2,100,000 | - | - | 2,100,000 | 0.41 |
| Wong Yiu Ming | 1,500,000 | - | - | 1,500,000 | 0.41 |
| Aggregate total of employees | 8,600,000 | - | - | 8,600,000 | 0.41 |

The Share Options may be exercised during the period from 21st October, 2001 to 19th July, 2003.

Directors and Chief Executive's Interests in Shares, Share Options and Warrants of the Company

As at 30th June, 2002, the beneficial interests of the Directors (the "Directors") and chief executive (the "Chief Executive") of the Company in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were recorded in the register required to be kept pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests in Shares

| Name of Director | Number of Shares held and nature of interests | | |
|------------------|---|------------------|-------------------------|
| | Personal interests | Family interests | Corporate interests |
| Tang To | 2,700,000 | - | 3,145,824 (Note 1) |
| Wong Yiu Ming | 8,814,611 | - | - |
| Zhou Junqing | - | 20,000 | - |
| Tang Kwan | - | - | 270,086,411 (Note 2) |
| Kan Wai Wah | 124,000 | - | - |

Notes:

- (1) As at 30th June, 2002, 3,145,824 Shares were held by Ginta Company Limited ("Ginta") 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 under the SDI Ordinance through his beneficial interests in Codo Development Limited ("Codo"). As at 30th June, 2002, 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. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited ("Keepsound"), a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family; (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited ("Friendchain"), a Hong Kong company controlled as to 40% by Elegant Power, as to 57.42% by The Saniwell Trust and as to 2.58% by Fullwin Limited; (iv) 16.09% by Yik Wan Company Limited ("Yik Wan"); and (v) 20.23% by 7 individuals.

Interests in Share Options

Pursuant to the Share Option Scheme, Share Options were granted to certain Directors which enable them to subscribe for Shares. The details are as follows:

| Name of Director | Outstanding as at 1st January, 2002 | Number of Share Options | | Outstanding as at 30th June, 2002 | Exercise price (HK\$) |
|------------------|-------------------------------------|---------------------------|-----------------------------|-----------------------------------|-----------------------|
| | | Granted during the period | Exercised during the period | | |
| Tang To | 2,100,000 | - | - | 2,100,000 | 0.41 |
| Wong Yiu Ming | 1,500,000 | - | - | 1,500,000 | 0.41 |

The Share Options may be exercised during the period from 21st October, 2001 to 19th July, 2003.

Other Information

Interests in Warrants of the Company

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 6th June, 2001, warrants (the "Warrants") on the basis of one Warrant for every five Shares of HK\$0.40 each were issued to certain Directors. Each Warrant confers rights to subscribe for one new Share in cash at an initial subscription price of HK\$0.40 per Share, subject to adjustment. The details are as follows:

| Name of Director | Number of Warrants held and nature of interests | | | Expiry date of exercise period |
|------------------|---|------------------|------------------------|--------------------------------|
| | Personal interests | Family interests | Corporate interests | |
| Tang To | 540,000 (Note 1) | - | 629,164 (Note 1) | 10th June, 2003 |
| Wong Yiu Ming | 1,762,922 | - | - | 10th June, 2003 |
| Zhou Junqing | - | 4,000 | - | 10th June, 2003 |
| Tang Kwan | - | - | 54,017,282 (Note 2) | 10th June, 2003 |
| Kan Wai Wah | 24,800 | - | - | 10th June, 2003 |

Notes:

- (1) The 1,169,164 Warrants are beneficially owned as to 629,164 Warrants by Ginta and as to 540,000 Warrants by Mr. Tang To. Mr. Tang To is deemed to be beneficially interested in the whole block of 1,169,164 Warrants by virtue of his interest in Ginta.
- (2) The 54,017,282 Warrants are beneficially owned as to 22,503,600 Warrants by Cosmos Holdings, as to 585,600 Warrants by Mr. Tang Kwan and as to 30,928,082 Warrants by Tai Shing Agencies Limited ("Tai Shing"). Mr. Tang Kwan is deemed to be beneficially interested in the whole block of 54,017,282 Warrants by virtue of his interests in Cosmos Holdings and Tai Shing.

Other than as disclosed above and certain nominee Shares held in trust for the Group, none of the Directors, Chief Executive or their associates had any other interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance during the period.

Save as disclosed herein, as at 30th June, 2002, none of the Directors or Chief Executive had any interest in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting as at 30th June, 2002 which is significant in relation to the business of the Company and its subsidiaries.

As at 30th June, 2002, none of the Directors had any direct interests or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group.

Substantial Shareholders

As at the six months ended 30th June, 2002, save as the interests of the Directors or Chief Executive disclosed above, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors or Chief Executive, the following persons (other than members of the Group) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:-

| 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 |
| 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 through its subsidiary, Tai Shing.
- (2) Ms. Law Kit Fong is deemed to be interested in the block of 270,086,411 Shares through her beneficial interests in Codo. As at 30th June, 2002, Codo through its wholly owned subsidiary, Cosmos Holdings, was the beneficial owner of 270,086,411 Shares. Codo is a Hong Kong company and is owned as to (i) 25.06% by Keepsound, a Hong Kong company controlled by The Saniwell Trust, (ii) 8.37% by Elegant Power, a company controlled by Ms. Law Kit Fong; (iii) 30.25% by Friendchain, a Hong Kong company controlled as to 40% by Elegant Power; (iv) 16.09% by Yik Wan, a Hong Kong company in which Ms. Law Kit Fong's late spouse, Mr. Kan Woon Cheung, had 14.29% beneficial holding, and (v) 20.23% by 7 individuals.
- (3) CRC is interested in 5,650,325 Shares through its subsidiary, China Resources Machinery Company Limited.

Save as disclosed herein, as at 30th June, 2002, so far as the Directors or Chief Executive are aware, there was no person (other than members of the Group) who was interested directly or indirectly in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of the Company or in any options in respect of such share capital.

Directors' and Chief Executive's Rights to Acquire Shares or Debt Securities

Other than as disclosed above, at no time during the period was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares or debt securities, including debentures, of the Company or any other body corporate; and none of the Directors, their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercise any such rights.

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

During the six months ended 30th June, 2002, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

Audit Committee

The audit committee (the "Committee") comprises the Company's two independent non-executive directors. The Group's unaudited condensed consolidated interim financial statements for the period ended 30th June, 2002 have been reviewed by the Committee which is of the opinion that such financial statements comply with the applicable accounting standards and legal requirements of the Stock Exchange and, that adequate disclosures have been made.

Employees and Remuneration Policy

As at 30th June, 2002, the Group has approximately 6,000 employees (2001: approximately 6,000), remunerations were formulated in accordance with performance of employees, business development and prevailing market conditions. Apart from in-house training programs, benefits also include schemes of insurance, retirement and so on.

Code of Best Practice

None of the Directors 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, 2002, 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.

Appreciation

On behalf of the Board, I would like to express appreciation to our shareholders for continuing support, all our management and staff members for their ongoing contribution.

On behalf of the Board
TANG To
Chairman

Hong Kong, 25th September, 2002