



Interim Report 2002/2003

震雄集團有限公司 

**CHEN HSONG HOLDINGS LIMITED**

(於百慕達註冊成立之有限公司)  
(Incorporated in Bermuda with limited liability)

## KEY FINANCIAL DATA

*For the six months  
ended 30 September*

<b>Results in Brief (HK\$'000)</b>	<b>2002 (Unaudited)</b>	2001 (Unaudited)	Change
Turnover	<b>758,403</b>	571,881	33%
Profit from Operating Activities	<b>130,475</b>	96,209	36%
Profit Attributable to Shareholders	<b>80,618</b>	50,168	61%
Total Assets	<b>2,065,489</b>	2,036,421	1%
Shareholders' Funds	<b>1,298,030</b>	1,257,499	3%
Issued Paid-up Capital	<b>60,881</b>	60,881	–
Net Current Assets	<b>833,882</b>	727,316	15%
<b>Per Share Data</b>			
Basic Earnings Per Share* (cents)	<b>13.2</b>	8.2	61%
Cash Dividends Per Share (cents)	<b>4.0</b>	4.0	–
Net Asset Backing Per Share (dollars)	<b>2.1</b>	2.1	–
<b>Key Financial Ratios</b>			
Return on Shareholders' Funds (%)	<b>6.2</b>	4.0	55%
Return on Total Assets (%)	<b>3.9</b>	2.5	56%

\* The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the period of HK\$80,618,000 (2001: HK\$50,168,000) and on 608,807,600 (2001: 608,807,600) ordinary shares in issue during the period.

## CORPORATE INFORMATION

### Directors

#### **Executive Directors**

Dr. Chen CHIANG, OBE  
*(Chairman & Chief Executive Officer)*  
Ms. Lai Yuen CHIANG  
*(Deputy Chief Executive Officer)*

#### **Non-executive Directors**

Mr. Johnson Chin Kwang TAN\*  
Ms. Ann Lai Wan CHIANG  
Mr. Anish LALVANI\*

\* *Independent Non-executive Directors*

### Members of the Audit Committee

Mr. Johnson Chin Kwang TAN  
*(Chairman)*  
Ms. Ann Lai Wan CHIANG  
Mr. Anish LALVANI

### Company Secretary

Ms. Alice Sin Ping LIP

### Authorised Representatives

Ms. Lai Yuen CHIANG  
Ms. Alice Sin Ping LIP

### Auditors

Ernst & Young

### Principal Bankers

The Hongkong and Shanghai Banking  
Corporation Limited  
Fortis Bank  
Citibank, N.A.  
Agricultural Bank of China  
The Bank of East Asia, Limited  
Credit Agricole Indosuez

<b>Principal Registrars</b>	Butterfield Fund Services (Bermuda) Limited Rosebank Centre 14 Bermudiana Road Pembroke Bermuda
<b>Branch Registrars</b>	Tengis Limited 4th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
<b>Registered Office</b>	Cedar House 41 Cedar Avenue Hamilton HM12 Bermuda
<b>Head Office &amp; Principal Place of Business</b>	13-15 Dai Wang Street Tai Po Industrial Estate Tai Po, New Territories Hong Kong
<b>Corporate Communications &amp; Investor Relations</b>	Mr. Stephen Hau Leung CHUNG Tel: (852) 2663 7821 Fax: (852) 2664 8202 Email: schung@chenhsong.com.hk
<b>Website</b>	<a href="http://www.chenhsong.com.hk">http://www.chenhsong.com.hk</a>
<b>Stock Code</b>	0057

## INTERIM RESULTS

The board of directors (the "Board") of Chen Hsong Holdings Limited (the "Company") announces that the unaudited consolidated profit attributable to shareholders of the Company for the six months ended 30 September 2002 (the "Period") amounted to HK\$80,618,000, representing an increase of 61% as compared with the corresponding period in 2001. Basic earnings per share for the six months ended 30 September 2002 were HK13.2 cents, an increase of 61% over the corresponding period in 2001 of HK8.2 cents. These unaudited interim results have been reviewed by the Company's Audit Committee.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the six months ended 30 September 2002*

	Notes	<i>For the six months ended 30 September</i>	
		<b>2002 (Unaudited) HK\$'000</b>	2001 (Unaudited) HK\$'000
<b>TURNOVER</b>	2	<b>758,403</b>	571,881
Cost of sales		<b>(479,730)</b>	(374,051)
Gross profit		<b>278,673</b>	197,830
Other revenues and gains		<b>13,097</b>	16,792
Selling and distribution expenses		<b>(61,835)</b>	(55,285)
Administrative expenses		<b>(58,301)</b>	(53,725)
Other operating expenses		<b>(41,159)</b>	(9,403)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	3	<b>130,475</b>	96,209
Finance costs		<b>(4,900)</b>	(6,211)
Share of profits and losses of associates		<b>3,154</b>	3,168
<b>PROFIT BEFORE TAX</b>		<b>128,729</b>	93,166
Tax	4	<b>(18,407)</b>	(17,632)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>110,322</b>	75,534
Minority interests		<b>(29,704)</b>	(25,366)
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>80,618</b>	50,168
Dividend — interim	5	<b>24,352</b>	24,352
<b>EARNINGS PER SHARE</b>	6		
Basic		<b>13.2 cents</b>	8.2 cents
Diluted		<b>13.2 cents</b>	8.2 cents

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2002*

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Statutory reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2002	60,881	476,755	295	46,823	2,116	2,351	(48,501)	712,474	1,253,194
Exchange realignment	-	-	-	-	-	-	747	-	747
Net profit for the Period	-	-	-	-	-	-	-	80,618	80,618
Final dividend for the year ended 31 March 2002	-	-	-	-	-	-	-	(36,529)	(36,529)
<b>At 30 September 2002</b>	<b>60,881</b>	<b>476,755</b>	<b>295</b>	<b>46,823</b>	<b>2,116</b>	<b>2,351</b>	<b>(47,754)</b>	<b>756,563</b>	<b>1,298,030</b>

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Statutory reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2001									
— As previously reported	60,881	476,755	295	36,245	1,544	2,351	(39,678)	674,101	1,212,494
— Effect of adopting SSAP 9 (Revised)	-	-	-	-	-	-	-	36,529	36,529
— As restated	60,881	476,755	295	36,245	1,544	2,351	(39,678)	710,630	1,249,023
Exchange realignment	-	-	-	-	-	-	(5,163)	-	(5,163)
Net profit for the Period	-	-	-	-	-	-	-	50,168	50,168
Final dividend for the year ended 31 March 2001	-	-	-	-	-	-	-	(36,529)	(36,529)
<b>At 30 September 2001</b>	<b>60,881</b>	<b>476,755</b>	<b>295</b>	<b>36,245</b>	<b>1,544</b>	<b>2,351</b>	<b>(44,841)</b>	<b>724,269</b>	<b>1,257,499</b>

**CONDENSED CONSOLIDATED BALANCE SHEET**

30 September 2002

	Notes	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		563,929	574,491
Goodwill		231	276
Negative goodwill	7	(3,726)	–
Interests in associates		27,415	27,272
Long term investments		124,403	124,403
		<b>712,252</b>	<b>726,442</b>
<b>CURRENT ASSETS</b>			
Inventories		299,316	267,904
Trade receivables	8	359,002	341,941
Short term investments		19,500	19,500
Deposits, prepayments and other receivables		53,303	59,189
Cash and cash equivalents		622,116	500,652
		<b>1,353,237</b>	<b>1,189,186</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	183,423	119,735
Tax payable		12,168	6,613
Other payables and accruals		187,864	174,791
Bank loans, unsecured		135,900	135,767
		<b>519,355</b>	<b>436,906</b>
<b>NET CURRENT ASSETS</b>			
		<b>833,882</b>	<b>752,280</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>1,546,134</b>	<b>1,478,722</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank loans, unsecured		89,480	89,200
Deferred tax		24,347	23,784
		<b>113,827</b>	<b>112,984</b>
<b>MINORITY INTERESTS</b>			
		<b>134,277</b>	<b>112,544</b>
		<b>1,298,030</b>	<b>1,253,194</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital		60,881	60,881
Reserves		1,237,149	1,192,313
		<b>1,298,030</b>	<b>1,253,194</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2002*

	<i>For the six months ended 30 September</i>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
		(Restated)
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	<b>170,343</b>	19,047
INVESTING ACTIVITIES	<b>(153,127)</b>	(28,015)
FINANCING ACTIVITIES	<b>(36,529)</b>	(31,025)
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(19,313)</b>	(39,993)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>500,652</b>	514,103
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	<b>(19)</b>	(130)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>481,320</b>	473,980
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>259,408</b>	168,320
Bank deposits with original maturity of less than three months when acquired	<b>221,912</b>	305,660
	<b>481,320</b>	473,980



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2002

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and basis of presentation adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's consolidated financial statements for the year ended 31 March 2002, except for the adoption of the following new and revised SSAPs, which are effective for the first time in the preparation of the unaudited condensed consolidated financial statements for the Period. Their major effects on the Group's accounting policies and the amounts disclosed in these unaudited condensed consolidated financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision of SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the Period and the comparative figures have been presented in accordance with SSAP 1 (Revised).

SSAP 11 (Revised) prescribes the basis for translation of foreign currency transactions and financial statements. SSAP 11 (Revised) has had no major impact on these condensed consolidated financial statements.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the Period into operating, investing and financing activities. The condensed consolidated cash flow statement for the Period and the comparative figures have been presented in accordance with SSAP 15 (Revised).

SSAP 33 prescribes the basis for reporting information about discontinuing and discontinued operations. SSAP 33 has had no major impact on these condensed consolidated financial statements.

SSAP 34 prescribes the accounting treatment and disclosure for employee benefits. SSAP 34 has had no major impact on these condensed consolidated financial statements.

## 2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold during the Period, after allowances for returns and trade discounts, excluding intra-group transactions. An analysis of the Group's turnover and contribution to profit from operating activities by principal activity is not provided because profit from operating activities was derived predominantly from the manufacture and sales of plastic injection moulding machines.

An analysis of the Group's turnover and profit from operating activities by geographical location of customers is as follows:

	<i>Turnover for the six months ended 30 September</i>		<i>Profit from operating activities for the six months ended 30 September</i>	
	<b>2002 (Unaudited) HK\$'000</b>	2001 (Unaudited) HK\$'000	<b>2002 (Unaudited) HK\$'000</b>	2001 (Unaudited) HK\$'000 (Restated)
People's Republic of China	<b>437,182</b>	328,576	<b>92,098</b>	64,507
Hong Kong SAR	<b>138,088</b>	91,485	<b>35,666</b>	20,114
Taiwan	<b>103,586</b>	65,613	<b>6,014</b>	9,852
Others	<b>79,547</b>	86,207	<b>10,925</b>	12,047
	<b>758,403</b>	571,881	<b>144,703</b>	106,520
Unallocated revenues and gains			<b>3,867</b>	7,486
Corporate and unallocated expenses			<b>(18,095)</b>	(17,797)
Profit from operating activities			<b>130,475</b>	96,209

### 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<i>For the six months ended 30 September</i>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>479,730</b>	374,051
Amortisation of goodwill	<b>45</b>	45
Negative goodwill recognised as income	<b>(165)</b>	(18)
Depreciation	<b>22,990</b>	21,120
Exchange losses/(gains), net	<b>282</b>	(1,039)
Interest on bank loans wholly repayable within five years	<b>4,900</b>	6,211
Loss/(gain) on disposal of fixed assets	<b>158</b>	(14)
Dividend income from listed investments	<b>–</b>	(14)
Interest income	<b>(3,867)</b>	(7,486)

### 4. TAX

	<i>For the six months ended 30 September</i>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current:		
Hong Kong	<b>–</b>	–
Elsewhere	<b>18,407</b>	15,181
Under-provision in prior year	<b>–</b>	180
Deferred	<b>–</b>	2,271
Tax charge for the Period	<b>18,407</b>	17,632

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the Period (2001: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

## 5. DIVIDENDS

	<i>For the six months ended 30 September</i>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK6 cents per ordinary share (2001: HK6 cents)	<b>36,529</b>	36,529
Interim dividend declared after the interim period end of HK4 cents per ordinary share (2001: HK4 cents)	<b>24,352</b>	24,352

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the Period of HK\$80,618,000 (2001: HK\$50,168,000) and on 608,807,600 (2001: 608,807,600) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders for the Period of HK\$80,618,000 (2001: HK\$50,168,000) and on the weighted average number of 611,463,006 (2001: 610,087,623) ordinary shares, being 608,807,600 (2001: 608,807,600) ordinary shares in issue during the Period used in the basic earnings per share calculation; and the weighted average number of 2,655,406 (2001: 1,280,023) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the Period.

## 7. NEGATIVE GOODWILL

On 24 April 2002, Productive Heat Treatment Company Limited ("Productive Heat"), a wholly owned subsidiary of the Group, entered into a share transfer agreement (the "Agreement") with Nanbao Air-Conditioning Engineering Company Limited ("Nanbao") and Taike Hydraulic Equipment (Shenzhen) Co. Ltd., under which Productive Heat acquired from Nanbao a 49% equity interest in the registered capital of Chen Ning Plastics Machinery Company, Limited ("Chen Ning"), for a total consideration of approximately RMB4,356,000 (equivalent to approximately HK\$4,109,000). The consideration was determined based on the net asset value of Chen Ning as at 31 December 2001 and was arrived at after arm's length negotiations.

On 24 May 2002, conditions of the Agreement were fulfilled and the Agreement became unconditional and was completed. Negative goodwill arising from the acquisition thereof was recognised in the condensed consolidated profit and loss account on the straight-line basis over a period of 10 years.

## 8. TRADE RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. An aging analysis of the trade receivables is as follows:

	<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Audited) HK\$'000
Current	<b>286,387</b>	262,167
1 – 90 days	<b>54,133</b>	58,586
91 – 180 days	<b>11,854</b>	10,930
Over 180 days	<b>6,628</b>	10,258
	<b>359,002</b>	341,941

**9. TRADE AND BILLS PAYABLES**

An aging analysis of the trade and bills payables is as follows:

	<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Audited) HK\$'000
Current	<b>142,511</b>	94,400
1 – 90 days	<b>36,366</b>	20,942
91 – 180 days	<b>994</b>	1,812
Over 180 days	<b>3,552</b>	2,581
	<b>183,423</b>	119,735

**10. CONTINGENT LIABILITIES**

At 30 September 2002, contingent liabilities not provided for in the condensed consolidated financial statements were as follows:

	<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	<b>469,186</b>	434,438

At 30 September 2002, guarantees given by the Company to banks in connection with facilities granted to subsidiaries were utilised to the extent of approximately HK\$225,380,000 (31 March 2002: HK\$224,967,000).

**11. COMMITMENTS**

At 30 September 2002, the Group had entered into agreements to invest up to approximately HK\$31,140,000 (31 March 2002: HK\$31,140,000) in associates and subsidiaries in the People's Republic of China. The Group had capital commitments, which were contracted but not provided for, in respect of the construction of industrial buildings in the People's Republic of China and purchases of machinery amounting to approximately HK\$1,163,000 (31 March 2002: HK\$1,517,000), in aggregate, related to these subsidiaries.

**12. RELATED PARTY TRANSACTIONS**

During the Period, the Group purchased raw materials amounting to HK\$23,620,000 (2001: HK\$15,786,000) from an associate at prices and conditions similar to those offered by unrelated suppliers of the Group.

**13. COMPARATIVE FIGURES**

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

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK4 cents (2001: HK4 cents) per ordinary share for the six months ended 30 September 2002 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 10 January 2003. The interim dividend declared will be paid on or about Thursday, 23 January 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 8 January 2003 to Friday, 10 January 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch registrars in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong not later than 4:00 p.m. on Tuesday, 7 January 2003.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Financial Performance**

The Group has, in the first half of the financial year, delivered significantly improved results with turnover increased by 33% to HK\$758 million (2001: HK\$572 million). Owing to relatively more stable market conditions and effective cost control measures during the period under review, gross profit margin improved by 2.1% to 36.7% (2001: 34.6%). Profit attributable to shareholders has increased by 61% to HK\$81 million (2001: HK\$50 million).



## Markets Analysis

The improvement in turnover in the first half of the financial year was primarily due to increased demand from markets in the Asia Pacific region, particularly Greater China. The following table summaries turnover by customer type:

Customer Type	<i>For the six months ended 30 September</i>		Change
	2002 (HK\$M)	2001 (HK\$M)	
People's Republic of China	<b>437</b>	329	+33%
Hong Kong SAR	<b>138</b>	91	+52%
Taiwan	<b>104</b>	66	+58%
Other overseas countries	<b>79</b>	86	-8%
	<b>758</b>	572	+33%

China's domestic economy continued to grow during the first half of the financial year. The Country's accession to the WTO has improved business confidence and led to significant foreign direct investments. These in turn have fueled domestic economic growth and market demand for injection moulding machines. The Group has captured and benefited from the business opportunities derived from China's economic development. In addition, the logical restructuring of the Group's sales network and establishment of satellite operating centres in previous financial years have contributed to the current market success. As a result, the Group's business from its mainland Chinese customers grew rapidly during the first half of the financial year, with turnover increased by 33% to HK\$437 million (2001: HK\$329 million). Also, the mainland Chinese customers have become a major customer source of the Group with their turnover contributed over 58% of total turnover of the Group during the review period. The Eastern China region has recorded fastest growth rate during the review period, and the Group believes that the region shall deliver good performance in the current financial year. With the leadership re-affirming the existing open policies, the Group remains optimistic with the growth prospect of the China market and believes it will continue to capitalise on China's market development. The Group will execute investments and other plans in the second half of the financial year that aim to expand the Group's production and market development capabilities, and prepare the Group to take advantage of China's growing economy.

The market in Hong Kong was severely affected by worldwide economic slowdown, domestic recession and the September 11 incident in the previous financial year that slowed demand. The situation has since then stabilised and customer confidence improved. For the first half of the financial year, Hong Kong customers have recorded turnover of HK\$138 million (2001: HK\$91 million), representing a significant increase of 52% over the same period last year. With the continuous economic development in China, the Group anticipates stable growth in the Hong Kong market.

The Taiwan market, which is export-oriented, was seriously affected by domestic and external economic slowdown in the previous financial year. The situation has since then improved with increased sales activities in the domestic market and certain overseas markets. Turnover has, in the first half of the financial year, increased by 58% over the same period last year to reach HK\$104 million (2001: HK\$66 million). The continuous improvement depends, to a large extent, on co-operation of the Taiwan and new leadership in China that is expected to affect cross-border trade across the PRC-Taiwan strait.

Internationally, the Group registered relatively stronger growths in the Southeast Asia and North America region during the first half of the financial year, with breakthroughs coming through from the North American market as a result of previous developmental efforts. The European, Middle East and other markets were affected by political and currency instabilities that have led to lower-than-expected results. During the first half of the financial year, the International sector recorded turnover of HK\$79 million (2001: HK\$86 million), representing a decline of 8% from the corresponding period in last year. Because of continuous uncertainties and rapidly changing political situation in the Middle East, and potential economic instability in South America countries, the Group expects that the current market situation shall remain more or less the same for the rest of the financial year, and that any improvement shall depend on economic rebounds in Europe/US, and political development in the Middle East. The Group will, nevertheless, continue its internationalization strategy by positioning Taiwan as a supply base, accelerating the international sales network and establishing regional service centers that are designed to provide a more diverse support to the international markets.

## Technology and Product Development

The Group's research and development efforts during the first half of the financial year focused on adding to its existing product lines high-technology content and other high-value-added peripheral features. These included a new series of energy-saving large tonnage injection moulding machines (the Group becomes the first producer in the Greater China market to have introduced energy-saving technology on large tonnage machines), whole-system closed-loop technology, closed-loop plasticisation technology, compression-moulding on all-electric machines, integration to gas-assisted moulding, and intelligent computer control technologies. The high-technology capabilities aim to widen the Group's technology lead over its competitors in the market, and also enable the Group to become a world-class technology provider. The projects will provide high-precision and high-value-added features and functionalities to the products, adding attractive profit potential to the Group.

## Financial Condition

The Group has well-managed its balance sheet resources and, as at 30 September 2002, registered an increase in total assets (less current liabilities) of HK\$37 million to HK\$1,546 million over the corresponding date last year (2001: HK\$1,509 million).

It is the Group's policy to consistently maintain a healthy financial status and liquidity to meet its commitments and funding requirements. As at 30 September 2002, the Group has cash and cash equivalents (including time deposits) of HK\$622 million (2001: HK\$474 million), representing an increase of HK\$148 million over the same date last year. Netting off short and long-term bank loans, as at 30 September 2002, the Group has net cash balance of HK\$397 million (2001: HK\$244 million), representing an increase of HK\$153 million over the same date last year. As a result, the Group's financial position remains debt-free with gearing ratio (net debt to total shareholders' fund) at 0%.

## Foreign Exchange Exposure Management

The Group's activities involve currencies such as Renminbi, Taiwan dollars, and US dollars. It is the Group's policy to adopt a conservative approach on foreign exchange exposure management. The Group endeavours to hedge its foreign currency activities with an appropriate level of foreign currency borrowings in order to reduce foreign

exchange exposure. As at 30 September 2002, the Group has foreign currency borrowings equivalent to HK\$225 million. The Group does not anticipate significant foreign exchange losses as long as the Hong Kong SAR government's policy to peg the Hong Kong dollar to the US dollar remains in effect. The Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. Forward exchange contracts are used for hedging payment in certain volatile foreign currencies.

### **Human Resources Development**

The Group, including its subsidiaries but excluding associates, employed approximately 2,900 full-time employees as at 30 September 2002. It is the Group's policy to ensure that pay levels of its employees are market-competitive and that they are rewarded on a performance basis under the general framework of the Group's bonus system. Share options of the Company may be granted to employees of the Group for attracting and retaining talented employees. The Group regularly conducts staff trainings and enterprise culture activities in order to enhance staff quality and teamwork spirit.

### **Plans for the Second Half**

Owing to political and economic instabilities in the Middle East and South American region, and continuous weakness in the global economic market, the Group adopts a prudent approach with respect to the second half of the financial year and expects stable business performance on an overall basis. The Group lends comfort in the Asia-Pacific market, particularly the Greater China market. With the recent change of top leadership and re-affirmation of market economy policy, the Group expects high economic growth in China that will benefit the neighbouring countries.

As the market shall remain competitive in the second half of the financial year, the Group will focus its effort in developing new businesses, re-engineering its operating structure and improving operating performance, thus preparing the Group to take on the challenges in the second half of the financial year.

The Group believes business growth in the second half year depends upon a well-defined market position, well-ordered approach in product promotion and distribution, and lean and flexible operating structure. It is the Group's intention to ensure the continuous development of its existing activities, expand its business

reach, streamline its operating structure and expenses, and to seek further improvement in operating and cost efficiency. The Group will execute a number of plans in the second half year that include an investment plan for the enhancement of production capability, and quality plan for the improvement of product quality and customer services. In terms of operating structure, the Group will focus on re-engineering its business flows for operation efficiency, and enhancing staff training that aims for better product knowledge, pre- and after-sales services. The following are plans for the second half of the financial year:

- (1) Plant and Production Facilities Investments — the Group has plans to set up new production plants in China that will increase production capabilities and improve production quality. The new facilities enable the Group to expand its product range that will lead to a drastic improvement in the Group's competitiveness in the market. Total investment is expected to be within HK\$200 million, and the Group expects to complete the investment program within year 2003.
- (2) Market Integration, Re-positioning and Expansion — the Group has plans to re-engineer and integrate its sales and marketing resources, create a flexible approach in market positioning, continue its expansion program by consolidating its international sales activities and appointing quality sales and distribution channels. These strategies will enable the Group to open up new markets and revenue sources through horizontal market share expansion, and accelerate market share integration activities for vertical market penetration.
- (3) Resources and Assets Management — the Group has been successful in managing its operating resources and assets, has devised plans that include setting up of specialist groups to centrally manage resources, and measures that aim to optimise the supply chain and improve efficiency/productivity levels.

The Group is well prepared to take up the challenges lying ahead, will execute these plans with due care, and aims to deliver concrete operating and financial results in the second half of the financial year.

## DIRECTORS' INTERESTS IN SHARES

At 30 September 2002, the interests of each director and chief executive of the Company and their associates in the equity or debt securities of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

### Interests in associated corporation

Chen Hsong Investments Limited ("CH Investments")

<b>Name of director</b>	<b>Nature of interests</b>	<b>Number of ordinary shares held</b>
Chen CHIANG	Other Interest	7,823,700*
Ann Lai Wan CHIANG	Personal	1,217,000
Lai Yuen CHIANG	Personal	1,216,000

\* Cititrust (Bahamas) Limited, in its capacity as the trustee of The Chiangs' Family Foundation, owns 7,823,700 shares of CH Investments. The Chiangs' Family Foundation is a trust established by Dr. Chen CHIANG for the benefit of his family.

At 30 September 2002, CH Investments held 410,001,620 ordinary shares of the Company, which represented approximately 67.35% equity interest in the Company.

Save as disclosed above, at 30 September 2002, none of the directors and chief executives of the Company or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "SHARE OPTION SCHEME" below, at no time during the six months ended 30 September 2002 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director, chief executive or their respective spouse or children under 18 years of age, or were any rights exercised by them; or was the Company, any of its

holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 23 August 2002, the share option scheme adopted by the Company on 30 August 1996 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further share options can be granted thereunder but in all other respects, the provisions of the Old Scheme remained in force and all share options granted prior to such termination continued to be valid and exercisable in accordance therewith. At 30 September 2002, 10,060,000 share options remained outstanding under the Old Scheme.

Particulars of the outstanding share options under the Old Scheme during the Period are as follows:

Name or category of participants	Number of share options					Date of grant of share options* (D/M/Y)	Exercise period of share options (D/M/Y)	Exercise price of share options** (HK\$)	Price of Company's shares	
	At 1 April 2002	Granted during the Period	Exercised during the Period	Lapsed during the Period	At 30 September 2002				At date of grant of share options*** (HK\$)	At date of exercise of share options (HK\$)
<b>Director</b>										
Lai Yuen CHIANG	1,000,000	-	-	-	<b>1,000,000</b>	10/1/2001	10/7/2002-9/1/2006	1.008	1.260	N/A
	2,000,000	-	-	-	<b>2,000,000</b>	31/8/2001	31/8/2006-28/2/2009	1.050	1.300	N/A
<b>Subtotal</b>	<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>					
<b>Other employees</b>										
In aggregate	1,100,000	-	-	-	<b>1,100,000</b>	10/1/2001	10/7/2002-9/1/2006	1.008	1.260	N/A
	300,000	-	-	-	<b>300,000</b>	23/4/2001	23/10/2003-22/4/2006	1.059	1.340	N/A
	4,880,000	-	-	(1,220,000)	<b>3,660,000</b>	31/8/2001	29/2/2004-31/8/2006	1.050	1.300	N/A
	2,500,000	-	-	(500,000)	<b>2,000,000</b>	31/8/2001	31/8/2006-28/2/2009	1.050	1.300	N/A
<b>Subtotal</b>	<b>8,780,000</b>	<b>-</b>	<b>-</b>	<b>(1,720,000)</b>	<b>7,060,000</b>					
<b>Total</b>	<b>11,780,000</b>	<b>-</b>	<b>-</b>	<b>(1,720,000)</b>	<b>10,060,000</b>					

- \* The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- \*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price quoted on The Stock Exchange of Hong Kong Limited on the trading day immediately prior to the date of grant of share options.

The consideration for the share options granted under the Old Scheme is HK\$1.00 per each grant. No share options were granted by the Company under the New Scheme.

## **SUBSTANTIAL SHAREHOLDERS' INTEREST**

At 30 September 2002, the only persons recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance as having interests of 10% or more of the share capital of the Company were CH Investments and Cititrust (Bahamas) Limited, which were both interested in the same parcel of 410,001,620 ordinary shares, representing approximately 67.35% equity interest in the Company. CH Investments is also interested in all of the non-voting deferred shares, if any, of the subsidiaries of the Company.

Cititrust (Bahamas) Limited owns an aggregate of approximately 84.42% of the issued share capital of CH Investments of which approximately 74.42% in its capacity as the trustee of The Chiangs' Industrial Foundation and 10% in its capacity as the trustee of The Chiangs' Family Foundation.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "DIRECTORS' INTERESTS IN SHARES" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.



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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September 2002.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the interim report, except that the non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

By Order of the Board

**Chen CHIANG**

*Chairman*

Hong Kong, 3 December 2002