

# 中大

Interim Report **2002**



Zhongda International Holdings Limited  
**中大國際控股有限公司**

(incorporated in Bermuda with limited liability)



## INTERIM RESULTS (UNAUDITED)

The board of directors (the "Directors") of Zhongda International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2002 together with the comparative figures for the corresponding period of 2001 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT For the six months ended 30th June, 2002

*(Amounts expressed in thousands of Renminbi, except for earnings per share)*

		<b>Six months ended 30th June,</b>	
		<b>2002 (Unaudited) RMB'000</b>	<b>2001 (Unaudited) RMB'000</b>
	<i>Note</i>		
Turnover	15	80,976	79,631
Cost of sales		(49,582)	(47,651)
Gross profit		31,394	31,980
Distribution costs		(11,378)	(9,510)
Administrative expenses		(18,140)	(8,400)
Other operating income, net		105	26
Profit from operations		1,981	14,096
Finance costs, net	3	(890)	(1,680)
Others, net		(342)	(137)
Profit before taxation and minority interests	3	749	12,279
Taxation	4	522	(505)
Profit before minority interests		1,271	11,774
Minority interests		(573)	(1,622)
Net profit for the period	6	698	10,152
Dividends	5	4,242	–
Earnings per share	7		
– Basic		RMB0.002	RMB0.032
– Diluted		RMB0.002	Not applicable



## CONDENSED CONSOLIDATED BALANCE SHEET

As of 30th June, 2002

(Amounts expressed in thousands of Renminbi)

		<b>30th June, 2002 (Unaudited)</b>	<b>31st December, 2001 (Note 18)</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	80,975	56,165
Deferred tax assets		10,398	9,309
		<hr/>	<hr/>
		91,373	65,474
<b>Current assets</b>			
Inventories		35,150	36,602
Prepayments and other current assets		524	1,135
Other receivables		16,892	18,171
Trade receivables	9	65,453	86,517
Cash and bank balances		20,235	34,646
		<hr/>	<hr/>
		138,254	177,071
<b>Total assets</b>		<hr/> <b>229,627</b>	<hr/> <b>242,545</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	10	42,386	42,386
Reserves	11	95,855	99,418
		<hr/>	<hr/>
		138,241	141,804
<b>Non-current liabilities</b>			
Long-term bank borrowings	12	2,500	2,900
		<hr/>	<hr/>
<b>Current liabilities</b>			
Due to a related company	14	–	32
Other payables and other current liabilities		13,848	14,518
Taxes payable		14,787	15,722
Trade payables	13	16,609	22,500
Short-term bank borrowings	12	21,200	26,100
Current portion of long-term bank borrowings	12	8,400	5,500
		<hr/>	<hr/>
		74,844	84,372
<b>Minority interests</b>		<hr/> 14,042	<hr/> 13,469
<b>Total equity and liabilities</b>		<hr/> <b>229,627</b>	<hr/> <b>242,545</b>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the six months ended 30th June, 2002

(Amounts expressed in thousands of Renminbi)

	Six months ended 30th June, 2002 (Unaudited)							Total RMB'000
	Share capital RMB'000 Note 10	Paid-in capital RMB'000 Note 11(a)	Share premium RMB'000	Reserve fund RMB'000 Note 11(b)	Enterprise expansion fund RMB'000 Note 11(b)	Cumulative translation differences RMB'000	Retained profits RMB'000 Note 11(c)	
Balances as of 1st January, 2002	42,386	-	17,073	2,697	2,697	21	76,930	141,804
Net profit for the period	-	-	-	-	-	-	698	698
Dividends	-	-	-	-	-	-	(4,242)	(4,242)
Translation difference	-	-	-	-	-	(19)	-	(19)
Balances as of 30th June, 2002	<u>42,386</u>	<u>-</u>	<u>17,073</u>	<u>2,697</u>	<u>2,697</u>	<u>2</u>	<u>73,386</u>	<u>138,241</u>



**Year ended 31st December, 2001** (Note 18)

	<b>Share capital</b>	<b>Paid-in capital</b>	<b>Share premium</b>	<b>Reserve fund</b>	<b>Enterprise expansion fund</b>	<b>Cumulative translation differences</b>	<b>Retained profits</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note 10</i>	<i>Note 11(a)</i>		<i>Note 11(b)</i>	<i>Note 11(b)</i>		<i>Note 11(c)</i>	
Balances as of 1st January, 2001	33,901	(3,514)	-	2,675	2,675	-	43,463	79,200
Difference between paid-in capital of subsidiaries between par value of 320,000,000 deemed shares arising from the Reorganisation	-	3,514	(3,514)	-	-	-	-	-
Issue of shares	8,484	-	33,939	-	-	-	-	42,423
Share issue expenses	-	-	(13,354)	-	-	-	-	(13,354)
Exercise of warrants	1	-	2	-	-	-	-	3
Net profit for the year	-	-	-	-	-	-	33,511	33,511
Profit appropriation								
- Reserve fund	-	-	-	22	-	-	(22)	-
- Enterprise expansion fund	-	-	-	-	22	-	(22)	-
Translation difference	-	-	-	-	-	21	-	21
Balances as of 31st December, 2001	<u>42,386</u>	<u>-</u>	<u>17,073</u>	<u>2,697</u>	<u>2,697</u>	<u>21</u>	<u>76,930</u>	<u>141,804</u>

**Six months ended 30th June, 2001 (Unaudited)**

	<b>Share capital</b>	<b>Paid-in capital</b>	<b>Share premium</b>	<b>Reserve fund</b>	<b>Enterprise expansion fund</b>	<b>Cumulative translation differences</b>	<b>Retained profits</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note 10</i>	<i>Note 11(a)</i>		<i>Note 11(b)</i>	<i>Note 11(b)</i>		<i>Note 11(c)</i>	
Balances as of 1st January, 2001	33,901	(3,514)	-	2,675	2,675	-	43,463	79,200
Net profit for the period	-	-	-	-	-	-	10,152	10,152
Translation difference	-	-	-	-	-	2	-	2
Balances as of 30th June, 2001	<u>33,901</u>	<u>(3,514)</u>	<u>-</u>	<u>2,675</u>	<u>2,675</u>	<u>2</u>	<u>53,615</u>	<u>89,354</u>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2002

(Amounts expressed in thousands of Renminbi)

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited) (Unaudited)</b>	
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from (used in) operating activities	<u>18,971</u>	<u>(17,949)</u>
Net cash used in investing activities	<u>(26,740)</u>	<u>(414)</u>
Net cash (used in) generated from financing activities	<u>(5,732)</u>	<u>13,500</u>
Net decrease in cash and cash equivalents	(13,501)	(4,863)
Cash and cash equivalents, beginning of period	<u>33,032</u>	<u>15,668</u>
Cash and cash equivalents, end of period	<u><b>19,531</b></u>	<u><b>10,805</b></u>
Analysis of the components of cash and cash equivalents:		
Cash and bank balances	20,235	10,805
Less: Bank deposits pledged as collateral for bank borrowings repayable beyond three months	12 <u>(704)</u>	<u>—</u>
Cash and cash equivalents	<u><b>19,531</b></u>	<u><b>10,805</b></u>



## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the six months ended 30th June, 2002**

*(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)*

### **1. REORGANIZATION AND BASIS OF PRESENTATION**

The Company (formally known as Zhongda Hi-Tech Development Limited) was incorporated in Bermuda on 14th September, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the other companies comprising the Group on 8th October, 2001. The shares of the Company were listed on the Stock Exchange on 1st November, 2001.

The Group resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the comparative condensed financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st December, 2001.

### **2. PRINCIPAL ACCOUNTING POLICIES**

The unaudited condensed interim financial statements are prepared under the historical cost convention, and in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The condensed interim financial statements should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of Financial Statements
SSAP 11 (revised)	:	Foreign Currency Translations
SSAP 15 (revised)	:	Cash Flow Statements
SSAP 25 (revised)	:	Interim Financial Reporting
SSAP 34	:	Employee Benefits

The effect of changes in accounting policies is not material to the current and prior periods.



### 3. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests is determined after crediting and charging the following:

	<b>Six months ended 30th June,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Crediting:		
Interest income on bank deposits	258	30
Reversal of provision for inventory obsolescence	—	176
	<u>          </u>	<u>          </u>
Charging:		
Depreciation on owned assets	1,904	987
Interest expense on bank borrowings repayable within five years	1,148	1,710
Loss on disposal of property, plant and equipment	284	—
Provision for inventory obsolescence	487	—
Provision for doubtful debts	5,830	2,798
Staff costs	9,977	6,347
Auditors' remuneration	524	—
	<u>          </u>	<u>          </u>

### 4. TAXATION

	<b>Six months ended 30th June,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current income taxes		
– Hong Kong profits tax ( <i>Note (a)</i> )	—	—
– PRC income taxes ( <i>Note (b)</i> )	360	944
– USA income taxes ( <i>Note (c)</i> )	207	221
Deferred tax income		
– PRC income taxes	(1,089)	(660)
	<u>          </u>	<u>          </u>
	<u>(522)</u>	<u>505</u>

- (a) No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong during the period.





- (b) The PRC income tax represents enterprise income tax ("EIT") charges on the taxable income reported in the statutory accounts of the companies of the Group established in the PRC.

Generally, companies established in the PRC are subject to EIT at 33 per cent. In accordance with relevant tax laws and regulations, the subsidiaries of the Group established in the PRC are subject to EIT at a rate of 24 per cent and are entitled to full exemption from EIT for the first two years and a 50 per cent reduction for the next three years, commencing from the first profitable year after offsetting available tax losses carried forward from the previous five years.

- (c) The USA income taxes represent the federal income taxes that are provided on a graduated rate basis and state income taxes that are provided at a flat rate of 8.84 per cent on the taxable income of a subsidiary in the USA.

## **5. DIVIDENDS**

Pursuant to a resolution of shareholders dated 28th May, 2002, the Company distributed a cash dividend of HK\$0.01 per share, amounting to HK\$4,000,040 (equivalent to RMB4,242,000), for the year ended 31st December, 2001.

The Directors resolved not to pay an interim dividend for the six months ended 30th June, 2002 (six months ended 30th June, 2001: nil).

## **6. NET PROFIT FOR THE PERIOD**

The consolidated net profit for the period included a profit of approximately RMB7,243,000, including a dividend income from a subsidiary of the Group amounting to RMB10,606,000, dealt with in the financial statements of the Company (six months ended 30th June, 2001: nil).

## **7. EARNINGS PER SHARE**

The calculation of earnings per share was based on the consolidated net profit of RMB698,000 (six months ended 30th June, 2001: RMB10,152,000) and the weighted average number of 400,004,000 shares (six months ended 30th June, 2001: 320,000,000 deemed shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th June, 2002 was based on the consolidated net profit of RMB698,000 and the weighted average number of approximately 400,004,000 shares in issue during the period. For the purpose of calculating diluted earnings per share, the outstanding warrants (Note 10(e)) were considered as potential ordinary shares, however, for the six months ended 30th June, 2002, the potential ordinary shares are anti-dilutive as their conversion to ordinary shares would increase earnings per share from continuing ordinary operations. Therefore, they are ignored in calculating diluted earnings per share. The diluted earnings per share for the six months ended 30th June, 2001 is not calculated because there was no potential dilutive shares.



## 8. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30th June, 2002 (Unaudited)							Total RMB'000
	Land use rights RMB'000	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Construction- in-progress RMB'000	
Cost								
Beginning of period	7,696	37,784	501	8,419	714	744	9,789	65,647
Additions	-	30	-	57	-	182	26,914	27,183
Disposals	-	(498)	-	-	(69)	-	-	(567)
End of period	<u>7,696</u>	<u>37,316</u>	<u>501</u>	<u>8,476</u>	<u>645</u>	<u>926</u>	<u>36,703</u>	<u>92,263</u>
Accumulated depreciation								
Beginning of period	1,646	2,716	84	4,013	639	384	-	9,482
Charge for the period	325	827	250	374	41	87	-	1,904
Disposals	-	(45)	-	-	(53)	-	-	(98)
End of period	<u>1,971</u>	<u>3,498</u>	<u>334</u>	<u>4,387</u>	<u>627</u>	<u>471</u>	<u>-</u>	<u>11,288</u>
Net book value								
End of period	<u>5,725</u>	<u>33,818</u>	<u>167</u>	<u>4,089</u>	<u>18</u>	<u>455</u>	<u>36,703</u>	<u>80,975</u>
Beginning of period	<u>6,050</u>	<u>35,068</u>	<u>417</u>	<u>4,406</u>	<u>75</u>	<u>360</u>	<u>9,789</u>	<u>56,165</u>

- (a) The land use rights of the land, where certain of the Group's buildings are situated, have a usage period of 12 years from the date of obtaining the land use right certificates.
- (b) As of 30th June, 2002, all the buildings of the Group are located in the PRC.
- (c) As of 30th June, 2002, land use rights and buildings with an aggregate net book value of approximately RMB33,621,000 (31st December, 2001: RMB34,600,000) are mortgaged as collateral for bank borrowings of the Group (Note 12).



## 9. TRADE RECEIVABLES

	<b>30th June, 2002 (Unaudited)</b> <i>RMB'000</i>	<b>31st December, 2001</b> <i>(Note 18)</i> <i>RMB'000</i>
Accounts receivable	95,488	113,979
Notes receivable	3,257	–
Less: Provision for doubtful debts	(33,292)	(27,462)
	<u>65,453</u>	<u>86,517</u>

Ageing analysis for trade receivables after provision for doubtful debts is as follows:

	<b>30th June, 2002 (Unaudited)</b> <i>RMB'000</i>	<b>31st December, 2001</b> <i>(Note 18)</i> <i>RMB'000</i>
Within six months	26,170	41,993
From seven to twelve months	11,351	13,470
From one to two years	13,453	25,778
Above two years	14,479	5,276
	<u>65,453</u>	<u>86,517</u>



## 10. SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.10 each		Issued and fully paid Ordinary shares of HK\$0.10 each		
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000	RMB equivalent RMB'000
Shares allotted and issued on incorporation as nil paid and subsequently credited as paid-in	1,000	100	1,000	100	106
Increase in authorised share capital	999,000	99,900	-	-	-
Shares issued as consideration for the acquisition of equity interests in the other companies comprising the Group	-	-	319,000	31,900	33,795
Pro forma share capital as of 1st January, 2001 and 30th June, 2001	1,000,000	100,000	320,000	32,000	33,901
New issues on private placement	-	-	70,000	7,000	7,424
New issues on initial public offering	-	-	10,000	1,000	1,060
New issues on exercise of warrants	-	-	4	-	1
Balance as of 31st December, 2001 and 30th June, 2002	<u>1,000,000</u>	<u>100,000</u>	<u>400,004</u>	<u>40,000</u>	<u>42,386</u>

The following changes in the Company's share capital occurred since its incorporation:

- Upon incorporation of the Company on 14th September, 2000, the authorised share capital was HK\$100,000, divided into 1,000,000 shares, all of which were allotted, issued and nil paid to Zhong Da (BVI) Limited on 28th September, 2000.
- On 8th October, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of additional 999,000,000 shares.
- On 19th October, 2001, pursuant to the Reorganisation described in Note 1 to the financial statements, the Company allotted and issued 300,000 shares, credited as fully paid to Zhong Da (BVI) Limited, Mr. Zhang Yu Qing, Gainful Outcome Holdings Limited and Outstanding Management Limited (hereinafter collectively referred to as the "Existing Shareholders"), in the proportion of 34,800 shares to Zhong Da (BVI) Limited, 71,500 shares to Mr. Zhang Yu



- Qing, 110,500 shares to Gainful Outcome Holdings Limited and 83,200 shares to Outstanding Management Limited, as consideration for the acquisition of equity interests in the other companies comprising the Group, and also credited as fully paid the 1,000,000 shares as set out in (a) above. On the same date, 318,700,000 shares were allotted and issued, credited as fully paid to the Existing Shareholders in the proportion of 253,685,200 shares to Zhong Da (BVI) Limited, 17,528,500 shares to Mr. Zhang Yu Qing, 27,089,500 shares to Gainful Outcome Holdings Limited and 20,396,800 shares to Outstanding Management Limited.
- (d) On 1st November, 2001, 20,000,000 shares held by Zhong Da (BVI) Limited were sold under private placement, in addition, 70,000,000 shares were issued under private placement and 10,000,000 shares were issued to the public, all at HK\$0.50 each with one warrant for every two shares. The total cash consideration from the private placement and the share issuance was HK\$40,000,000 (equivalent to RMB42,423,000) before the deduction of related issuance expenses borne by the Company.
- (e) The warrants issued by the Company entitle the holders to subscribe up to HK\$33,750,000 in aggregate in cash for a total of 50,000,000 shares at an initial price of HK\$0.675 each, subject to adjustment, at any time on or after 1st November, 2001 until 31st October, 2006. On 28th November, 2001, 4,000 warrants were converted by the respective warrant holders into 4,000 shares of the Company at the amount of HK\$2,700 (equivalent to RMB3,000). No further warrants were exercised during the period from 29th November, 2001 to the date of this report.
- (f) The Company adopted a share option scheme on 8th October, 2001 under which the directors may, at their discretion, invite any executive and/or employee of the Company and/or its subsidiaries to take up options to subscribe for shares. The exercise price is determined by the directors and will at least be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which shall be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. As of 30th June, 2002, no share option was granted.

The comparative share capital amount as of 1st January, 2001 and 30th June, 2001 represents the pro forma issued share capital of the Company after the issue of 1,000,000 shares on incorporation, and 319,000,000 shares for the acquisition of equity interests in the other companies comprising the Group, as if the Reorganisation had been in place as of the respective dates.

As of 30th June, 2002, 234,720,000 (31st December, 2001: 234,720,000) of the Company's shares were held by Zhong Da (BVI) Limited, a company incorporated in the British Virgin Islands. The directors consider Zhong Da (BVI) Limited to be the ultimate holding company of the Group.



## 11. RESERVES

### (a) Paid-in capital

Paid-in capital of the Group as of 1st January, 2001 and 30th June, 2001 represents the difference between capital injected to subsidiaries of the Company and HK\$32,000,000 (equivalent to approximately RMB33,901,000) recorded as deemed share capital, as if the Reorganisation had been in place as of the dates.

### (b) Reserve fund and enterprise expansion fund

According to the rules and regulations applicable to the Group's subsidiaries in the PRC, when distributing net income of each year, these subsidiaries shall set aside a portion of their net income as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund. Such amounts that are appropriated are determined at the discretion of the board of directors. These statutory reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. Under the accounting principles generally accepted in Hong Kong, the appropriations to staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund as liabilities of the Group.

### (c) Retained profits

Retained profits may be carried forward for future distribution.

## 12. BORROWINGS

	<b>30th June, 2002 (Unaudited) RMB'000</b>	<b>31st December, 2001 (Note 18) RMB'000</b>
Short-term bank borrowings		
– Secured	16,200	21,100
– Unsecured	5,000	5,000
	<u>21,200</u>	<u>26,100</u>
Long-term bank borrowings, secured		
– Repayable within one year	8,400	5,500
– Repayable in two to five years	2,500	2,900
	10,900	8,400
Less: Amounts due within one year included under current liabilities	(8,400)	(5,500)
	<u>2,500</u>	<u>2,900</u>



As of 30th June, 2002, the Group's bank borrowings were secured by the following:

- (i) a charge on bank deposits of USD85,000 (equivalent to approximately RMB704,000) for short-term bank borrowings of RMB700,000;
- (ii) certain land use rights and buildings with an aggregate net book value of approximately RMB33,621,000 pledged as collateral for general banking facilities of RMB22,900,000 (Note 8), of which RMB21,400,000 has been utilised as of 30th June, 2002; and
- (iii) corporate guarantee given by a third party company for short-term bank borrowings of RMB5,000,000.

### 13. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	<b>30th June, 2002 (Unaudited)</b>	<b>31st December, 2001</b>
	<i>RMB'000</i>	<i>(Note 18) RMB'000</i>
Within one year	8,664	15,904
From one to two years	3,947	3,182
From two to three years	939	1,485
Above three years	3,059	1,929
	<hr/> <b>16,609</b>	<hr/> <b>22,500</b>

### 14. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.



**(a) Transactions with related companies**

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Transactions with a company, in which the Chairman of the Group has a controlling interest		
– Service fee	375	375
– Patent fee	100	100
– Trademark fee	75	75
– Rental of office premises	50	50
	<u>          </u>	<u>          </u>
Purchases from a company, in which the Chairman of the Group has significant influence	2,849	3,029
	<u>          </u>	<u>          </u>
Sales to companies, in which the Chairman of the Group has significant influence ( <i>Note (iv)</i> )	–	494
	<u>          </u>	<u>          </u>

In the opinion of the directors of the Group, the transactions with related parties were carried out on normal commercial terms and in the usual course of business. The transactions with related parties, other than those described below, would continue after the listing of the Company's shares on the Stock Exchange.

- (i) Pursuant to an agreement dated 31st December, 2000 between one of the Group's subsidiaries and the related party and a consent statement from the relevant tax bureau on 23rd March, 2001, taxes payable of the subsidiary approximating RMB32,233,000 would be paid through the related party. As a result, the liabilities were offset against amounts due from the related party as of 31st March, 2001 to reflect the substance of the transaction.
- (ii) As of 1st May, 2001, one of the subsidiaries of the Group acquired certain plant buildings and related land use right from the related company at their open market value of approximately RMB29,262,000. Consideration for the acquisition of the assets was settled via the offset of amounts due from the related party.
- (iii) Pursuant to revised borrowing arrangements dated 31st July, 2001 and 2nd August, 2001, collaterals arranged by related companies, in which the Chairman of the Group has a controlling interest, for bank borrowings of the Group amounting to RMB5,000,000 and RMB27,000,000 was released with effect from the respective dates.
- (iv) Sales to related companies were discontinued after the listing of the Company's shares on the Stock Exchange.





**(b) Balances with a related company**

Included in the balance sheet are the following balances with a related company, in which the Chairman of the Group has a controlling interest:

	<b>30th June, 2002</b>	<b>31st December, 2001</b>
	<b>(Unaudited)</b>	<i>(Note 18)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Due to a related company	<u>          –          </u>	<u>          32          </u>

**15. TURNOVER AND SEGMENT INFORMATION**

**(a) Turnover**

The principal activities of the Group are the development, manufacture and sale of automobile equipment. As the Group is engaged in a single business segment, no business segment information is presented.

**(b) Segment information**

The Group conducts the majority of its business activities in two geographical areas, the PRC and the USA. The geographic locations of the assets are the basis on which the Group reports its primary segment information.



An analysis by geographical locations of assets is as follows:

	PRC		USA		Unallocated		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30th June,		30th June,		30th June,		30th June,	
	2002	2001	2002	2001	2002	2001	2002	2001
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
REVENUE								
External sales	68,419	70,368	12,557	9,263	-	-	80,976	79,631
RESULT								
Segment result	5,328	13,476	332	827	-	-	5,660	14,303
Unallocated corporate expenses	-	-	-	-	(3,679)	(207)	(3,679)	(207)
Operating profit	5,328	13,476	332	827	(3,679)	(207)	1,981	14,096
Finance cost, net	(989)	(1,680)	-	-	99	-	(890)	(1,680)
Others, net	(335)	(133)	(6)	(4)	(1)	-	(342)	(137)
Taxation	729	(284)	(207)	(221)	-	-	522	(505)
Minority interests	(573)	(1,622)	-	-	-	-	(573)	(1,622)
Net profit (loss) for the period	4,160	9,757	119	602	(3,581)	(207)	698	10,152
OTHER INFORMATION								
Segment capital expenditure	27,040	29,421	143	285	-	-	27,183	29,706
Unallocated corporate capital expenditure	-	-	-	-	-	-	-	-
Total	27,040	29,421	143	285	-	-	27,183	29,706
Segment depreciation	1,588	951	66	36	-	-	1,654	987
Unallocated corporate depreciation	-	-	-	-	250	-	250	-
Total	1,588	951	66	36	250	-	1,904	987



	PRC		USA		Unallocated		Total	
	30th June, 2002 (Unaudited) RMB'000	31st December, 2001 (Note 18) RMB'000	30th June, 2002 (Unaudited) RMB'000	31st December, 2001 (Note 18) RMB'000	30th June, 2002 (Unaudited) RMB'000	31st December, 2001 (Note 18) RMB'000	30th June, 2002 (Unaudited) RMB'000	31st December, 2001 (Note 18) RMB'000
<b>ASSETS</b>								
Segment assets	208,335	198,331	12,297	13,410	-	-	220,632	211,741
Unallocated corporate assets	-	-	-	-	8,995	30,804	8,995	30,804
<b>Total</b>	<b>208,335</b>	<b>198,331</b>	<b>12,297</b>	<b>13,410</b>	<b>8,995</b>	<b>30,804</b>	<b>229,627</b>	<b>242,545</b>
<b>LIABILITIES</b>								
Segment liabilities	74,076	84,093	2,501	2,684	-	-	76,577	86,777
Unallocated corporate liabilities	-	-	-	-	767	495	767	495
<b>Total</b>	<b>74,076</b>	<b>84,093</b>	<b>2,501</b>	<b>2,684</b>	<b>767</b>	<b>495</b>	<b>77,344</b>	<b>87,272</b>
<b>MINORITY INTERESTS</b>								
	14,042	13,469	-	-	-	-	14,042	13,469

## 16. COMMITMENTS

### (a) Capital commitments

	30th June, 2002 (Unaudited) RMB'000	31st December, 2001 (Note 18) RMB'000
Capital commitments of the Group relating to the acquisition of property, plant and equipment for production purposes, which had been authorised and contracted for	-	8,000



**(b) Operating leases**

The Group had the following operating lease commitments to make future payments under non-cancellable operating leases in respect of land and buildings:

	<b>30th June, 2002 (Unaudited)</b>	<b>31st December, 2001 (Note 18)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Land and buildings		
– Within one year	897	742
– In two to five years	1,412	1,618
– After five years	780	900
	<hr/>	<hr/>
	<b>3,089</b>	<b>3,260</b>
	<hr/>	<hr/>

**17. CONTINGENCIES**

As of 30th June, 2002, there were no significant contingencies.

**18. COMPARATIVE FIGURES**

The consolidated financial statements of the Group as of and for the year ended 31st December, 2001 were audited by Arthur Andersen & Co., whose report dated 22nd April, 2002 expressed an unqualified opinion with respect to the true and fair view given by the consolidated financial statements.

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

**BUSINESS REVIEW**

The first half of 2002 was a period of immense challenge to the Group's corporate development since its listing on the Stock Exchange in November 2001. Despite the prolonged world economic slowdown, especially after the 911 events in the US, the Group maintained stable performance in its largest market, the PRC, with increased sales to the US, being the Group's major overseas market. The Group's unaudited total turnover for the six months ended 30th June, 2002 was approximately RMB80,976,000, representing a modest increase from that of the same period last year. The Group managed to maintain its gross profit at RMB31,394,000 for the reported period.



In addition, the PRC's automobile industry began a series of market consolidation and restructuring after the country's accession to the WTO. Many small to medium sized domestic automobile repair and maintenance service providers, including some of the Group's clients were forced to wind up or underwent corporate restructuring. Accordingly, the Group's provision for bad debts was adversely affected by the market consolidation in the PRC.

The Group's continued strengthening of its market presence and the introduction of new product lines of higher profit margins resulted in substantial increase in operating overheads. As the new product lines were still in their initial launch stage and had yet to generate a profit during the period under review, the Group's net profit was thus affected.

The Group's active overseas marketing activities also led to a significant increase in marketing expenses. Moreover, the Group's listing on the Stock Exchange also involved additional relevant expenses and higher professional fees during the six-month period.

To maintain stable turnover and competitiveness, the Group continued to improve the quality and technical level of its products and to explore new business opportunities in the domestic and international markets. New models of lacquer rooms, such as computerised temperature controlled lacquer room, were being developed during the period, and continued improvement were made to the fully automated computerised car wash machines and automobile repair testing instruments.

Apart from new models of lacquer rooms, the Group has been engaged in the development of wider applications of its surface treatment equipment. To meet the criteria of being a qualified suppliers of automobile equipment, the Group has been engaged in relevant tests to obtain certain licences or approval.

## **FINANCIAL REVIEW**

For the six months ended 30th June, 2002, the Group's turnover was approximately RMB80,976,000, representing an increase of 1.7% as compared with the corresponding period in 2001. The Group's net profits attributable to shareholders amounted to approximately RMB698,000 (six months ended 30th June, 2001: RMB10,152,000) representing a decrease of 93% when compared with the corresponding period in 2001.

During the period under review, the basic earnings per share has decreased by 93.8% to RMB0.002 (six months ended 30th June, 2001: RMB0.032).



## **INTERIM DIVIDEND**

The Directors resolved not to pay an interim dividend for the six months ended 30th June, 2002 (six months ended 30th June, 2001: nil).

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June, 2002, the total assets of the Group amounted to RMB229,627,000 (31st December, 2001: RMB242,545,000).

As at 30th June, 2002, the Group had bank balances and cash of RMB20,235,000 (31st December, 2001: RMB34,646,000). The Group's bank loans amounted to RMB32,100,000 (31st December, 2001: RMB34,500,000). The Group's bank borrowings were secured by a charge on bank deposits of USD85,000 and certain land use rights and buildings held by the Group with a total book value of RMB33,621,000 (31st December, 2001: RMB34,600,000) as well as corporate guarantee given by a third party company.

The Group's major income and borrowings are in Renminbi. Accordingly, there is no significant exposure to foreign exchange rates fluctuation.

As at 30th June, 2002, the debt to equity ratio of the Group was 23.2% (31st December, 2001: 24.3%). The debt to equity ratio is computed on the basis of total borrowings divided by the shareholders' funds of the Group.

The Directors are of the view that there are sufficient financial resources to satisfy its capital commitments and on-going working capital requirements.

## **PROSPECTS**

Despite the anticipated impact from the continued market consolidation and restructuring in the PRC's automobile industry in the second half of the year, the Group will capitalise on its strengths to maintain stable performance for the full year of 2002.

To strengthen its earning base, the Group is actively seeking opportunities to acquire profit-making operations with synergetic effects or activities complementing the Group's existing business profile.

Forging partnership with top international automobile manufacturers is another strategy of the Group to expand its business. The Group is currently holding talks with General Electric of the US and Toyota of Japan on the supply of automobile maintenance equipment. In addition, the Group is exploring opportunities to shift the manufacturing stage of products for export to the relevant overseas markets. The move from local production for overseas sales to overseas production for overseas sales is expected to achieve substantial saving in transportation, assembly and tariff expenses and time. The move will also increase the Group's flexibility in making timely adjustment to production according to market changes.



## EMPLOYEE REMUNERATION POLICIES

As at 30th June, 2002, the Group employed 865 (31st December, 2001: 855) employees.

The Group provides remuneration package to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides other benefits to its employees such as medical and statutory retirement benefits for both the directors and employees.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

The Company has a share option scheme, under which it may grant options to employees (including executive directors) of the Company to subscribe for ordinary shares in the Company. As of 30th June, 2002, no share option has been granted.

Other than disclosed above, at no time during the year was the Company and any of its subsidiaries a party to any arrangements to enable the directors of the Company, their respective spouses or their children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and any other body corporate.

## DIRECTORS' INTERESTS IN SHARES

As of 30th June, 2002, the interests of the directors of the Company in the issued share capital of the Company (within the meanings of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as 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 Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of directors	Number of ordinary shares	
	Personal interests	Corporate interests
Mr. Xu Lian Guo ( <i>Note 1</i> )	–	234,720,000
Mr. Xu Lian Kuan ( <i>Note 1</i> )	–	234,720,000
Mr. Zhang Yuqing	17,600,000	–

(1) *These shares are held by Zhong Da (BVI) Limited ("Zhongda (BVI)"), a company incorporated in the British Virgin Islands, in which Mr. Xu Lian Guo ("Mr. Xu") and his younger brother, Mr. Xu Lian Kuan, beneficially own 57.22% and 42.78% of its issued share capital respectively.*



Other than disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the issued share capital of the Company as defined in the SDI Ordinance as of 30th June, 2002.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES**

As of 30th June, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had a beneficial interest of 10 per cent or more in the issued share capital of the Company:

<b>Name of shareholders</b>	<b>Number of issued shares</b>	<b>Percentage of holding</b>
Mr. Xu	234,720,000 <sup>(1)</sup>	58.7%
Mr. Xu Lian Kuan	234,720,000 <sup>(1)</sup>	58.7%
Zhong Da (BVI)	234,720,000 <sup>(2)</sup>	58.7%
Shum Yip (Holdings) Company Limited	47,680,000 <sup>(3)</sup>	11.9%

#### *Notes:*

- (1) This interest represents the number of Shares held by Zhong Da (BVI) where Mr. Xu and Mr. Xu Lian Kuan are taken to be interested in such Shares under Section 8 the SDI Ordinance. The entire issued share capital of Zhong Da (BVI) is beneficially owned as to 57.22% and 42.78% by Mr. Xu and Mr. Xu Lian Kuan respectively.
- (2) This interest of Zhong Da (BVI) is duplicated in the interest of Mr. Xu and Mr. Xu Lian Kuan.
- (3) This interest of Shum Yip (Holdings) Company Limited is held indirectly through Gainful Outcome Holdings Limited and Outstanding Management Limited both of which are wholly owned subsidiaries of Shum Yip (Holdings) Company Limited.

Save as disclosed above, no other entity or person was recorded in the register kept by the Company under section 16(1) of the SDI Ordinance as having an interest of 10% or more of the issued share capital of the Company.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Except for the contracts of significance disclosed above and in Note 14 to the financial statements, no other contract of significance subsisted during or at the end of the six-month period.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30th June, 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.





## **AUDIT COMMITTEE**

The Company has established an audit committee with terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control system of the Group. The audit committee comprises two independent non-executive directors, namely, Mr. Gu Yao Tian and Mr. Chan Wai Dune.

The audit committee has reviewed the interim report for the six months ended 30th June, 2002.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules during the six months ended 30th June, 2002.

By order of the Board  
**Xu Lian Guo**  
*Chairman*

Hong Kong, 23rd September, 2002