



Cosmos

Machinery

Enterprises

Limited

Interim

Report

2003



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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

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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
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code : 00118

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, 2003 with comparative figures for the corresponding period in 2002 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30th June,	
		2003 (Unaudited) HK\$'000	2002 (Unaudited and restated) HK\$'000
Turnover	2	626,074	585,937
Cost of sales		(488,363)	(445,861)
Gross profit		137,711	140,076
Other revenue		11,593	17,346
Distribution costs		(43,318)	(41,584)
Administrative expenses		(82,068)	(84,290)
Other operating expenses		(1,527)	(936)
Profit from operations	3	22,391	30,612
Finance costs		(9,154)	(9,483)
Investment income		524	537
Gain (loss) on disposal of subsidiaries		1,184	(1,316)
Release of negative goodwill of an associate		1,103	–
Share of results of associates		6,122	6,223
Profit before taxation		22,170	26,573
Taxation	4	4,619	4,176
Profit before minority interests		17,551	22,397
Minority interests		10,125	11,033
Net profit for the period		7,426	11,364
Earnings per share – basic	5	1.16 cents	1.77 cents

CONDENSED CONSOLIDATED BALANCE SHEET

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th June, 2003 (Unaudited) HK\$'000	31st December, 2002 (Audited and restated) HK\$'000
Non-current Assets			
Investment properties		24,400	24,400
Property, plant and equipment		429,128	429,503
Goodwill		3,532	4,839
Negative goodwill		(182)	(242)
Deferred tax assets		17,656	15,608
Interests in associates		92,174	85,988
Investments in securities		10,692	10,605
		577,400	570,701
Current Assets			
Inventories		424,774	436,326
Trade and other receivables	7	512,172	470,971
Bills receivable		12,434	6,223
Tax recoverable		1,093	2,484
Pledged bank deposits		13,038	18,176
Bank balances and cash		100,131	81,254
		1,063,642	1,015,434
Current Liabilities			
Trade and other payables	8	440,003	477,633
Bills payable		106,480	96,700
Amounts due to associates		1,441	1,441
Tax payable		13,659	10,131
Borrowings – due within one year		214,499	178,787
Obligations under finance leases and hire purchase contracts – due within one year		4,371	4,246
Bank overdrafts		28,967	25,056
		809,420	793,994
Net Current Assets		254,222	221,440
		831,622	792,141

CONDENSED CONSOLIDATED BALANCE SHEET

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th June, 2003 (Unaudited) HK\$'000	31st December, 2002 (Audited and restated) HK\$'000
Capital and Reserves			
Share capital	9	256,370	256,335
Reserves		351,487	344,842
		607,857	601,177
Minority interests			
		174,198	164,436
Non-current Liabilities			
Borrowings – due after one year		33,684	12,000
Obligations under finance leases and hire purchase contracts – due after one year		4,844	4,127
Deferred tax liabilities		11,039	10,401
		49,567	26,528
		831,622	792,141

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002							
As previously stated	256,335	267,149	49,965	(12,162)	594	17,973	579,854
Prior period adjustment – effect of adopting SSAP 12 (Revised)	–	–	(3,127)	–	–	7,398	4,271
As restated	256,335	267,149	46,838	(12,162)	594	25,371	584,125
Exchange differences arising from translation of overseas operations	–	–	–	(2,370)	–	–	(2,370)
Net losses not recognised in the income statement	–	–	–	(2,370)	–	–	(2,370)
Realised on disposal of subsidiaries	–	–	–	1	–	–	1
Profit for the period	–	–	–	–	–	11,364	11,364
At 30th June, 2002 and 1st July, 2002	256,335	267,149	46,838	(14,531)	594	36,735	593,120
Exchange differences arising from translation of overseas operations	–	–	–	1,393	–	–	1,393
Deficit arising on revaluation	–	–	(4,433)	–	–	–	(4,433)
Net gains (losses) not recognised in the income statement	–	–	(4,433)	1,393	–	–	(3,040)
Profit for the period	–	–	–	–	–	11,097	11,097
At 31st December, 2002 and 1st January, 2003	256,335	267,149	42,405	(13,138)	594	47,832	601,177
Exchange differences arising from translation of overseas operations	–	–	–	(766)	–	–	(766)
Net losses not recognised in the income statement	–	–	–	(766)	–	–	(766)
Exercise of warrants	35	–	–	–	–	–	35
Realised on disposal of subsidiaries	–	–	–	(15)	–	–	(15)
Profit for the period	–	–	–	–	–	7,426	7,426
At 30th June, 2003	256,370	267,149	42,405	(13,919)	594	55,258	607,857

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th June,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	(7,902)	26,879
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(23,611)	(23,641)
NET CASH INFLOW (OUTFLOW) FROM FINANCING ACTIVITIES	46,646	(6,181)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,133	(2,943)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	56,197	30,458
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(166)	(223)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	71,164	27,292
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	100,131	65,365
Bank overdrafts	(28,967)	(38,073)
	71,164	27,292

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice ("SSAP") no. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2002, except the Group has adopted the SSAP 12 (Revised) "Income Taxes" to account for deferred tax which became effective on 1st January, 2003. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax.

In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening retained profits at 1st January, 2002 have been increased by approximately HK\$7,398,000, which is the cumulative effect of the change in policy on the results for periods prior to 2002. The balance on the Group's asset revaluation reserve at 1st January 2002 has been reduced by approximately HK\$3,127,000, representing the deferred tax liability recognised in respect of the revaluation surplus on the Group's properties at that date. The effect of the change is a decreased charge to income taxes in the current period of approximately HK\$731,000 (2002: approximately HK\$1,118,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Segmental information

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information. An analysis of the Group's revenue and contribution to operating results by business segment is presented below:

Six months ended 30th June, 2003

	Industrial consumables HK\$'000	Plastic processing products HK\$'000	Machinery HK\$'000	Audio products HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER								
External sales	117,539	99,927	266,607	29,882	112,119	0	-	626,074
Inter-segment sales	2,548	4,057	1,393	4	-	-	(8,002)	-
Total revenue	120,087	103,984	268,000	29,886	112,119	0	(8,002)	626,074

Inter-segment sales are charged at prevailing market rates

RESULT

Segment result	6,027	3	30,435	(11,558)	6,752	397	3,020	35,076
Unallocated corporate expenses								(12,685)
Profit from operations								22,391
Finance costs								(9,154)
Investment income								524
Gain on disposal of subsidiaries								1,184
Share of results of associates								6,122
Release of negative goodwill of an associate								1,103
Profit before taxation								22,170

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30th June, 2002

	Industrial consumables HK\$'000	Plastic processing products HK\$'000	Machinery HK\$'000	Audio products HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER								
External sales	93,458	74,184	253,985	56,176	96,344	11,790	–	585,937
Inter-segment sales	2,020	7,877	6,133	–	–	–	(16,030)	–
Total revenue	95,478	82,061	260,118	56,176	96,344	11,790	(16,030)	585,937

Inter-segment sales are charged at prevailing market rates

RESULT

Segment result	9,481	4,930	32,086	(11,552)	6,081	(110)	2,516	43,432
Unallocated corporate expenses								(12,820)
Profit from operations								30,612
Finance costs								(9,483)
Investment income								537
Loss on disposal of subsidiaries								(1,316)
Share of results of associates								6,223
Profit before taxation								26,573

	Turnover		Contribution to profit from operations	
	Six months ended 30th June,		Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
By geographical market:				
Hong Kong	177,448	192,855	7,457	22,896
Other regions in the People's Republic of China	365,227	276,443	38,077	26,864
Other Asia-Pacific countries	43,588	62,862	(5,051)	(5,282)
Europe	17,693	36,254	(2,225)	1,028
North America	22,118	17,523	(3,182)	(2,074)
	626,074	585,937	35,076	43,432
Unallocated corporate expenses			(12,685)	(12,820)
Profit from operations			22,391	30,612

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Profit from operations

	For the six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Depreciation and amortisation on:		
Owned assets	27,318	25,500
Assets held under finance leases and hire purchase contracts	3,425	2,554
Amortisation of goodwill (included in other operating expenses)	1,527	936
Loss on disposal of property, plant and equipment	514	2,046
and after crediting:		
Release of negative goodwill to income (included in other revenue)	61	351

4. Taxation

	For the six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	1,065	2,992
Overseas taxation	3,606	1,633
Deferred taxation	(731)	(1,118)
Taxation attributable to the Company and its subsidiaries	3,940	3,507
Share of tax on results of associates	679	669
	4,619	4,176

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits 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 per share

The calculation of the basic earnings per share for the period is based on the net profit for the period of approximately HK\$7,426,000 (2002: approximately HK\$11,364,000, restated) and on the weighted average number of shares in issue during the period of 640,848,444 (2002: 640,838,234).

The computation of diluted earnings per share for period ended 30th June, 2003 or 2002 does not assume the exercise of options because the exercise price of the Company's options was higher than the average market price of shares for both periods.

The computation of diluted earnings per share for period ended 30th June, 2002 does not assume the exercise of warrants because the exercise price of the Company's warrants was higher than the average market price of shares for the period.

Accordingly no diluted earnings per share has been calculated for both periods ended 30th June, 2002 and 2003.

6. Property, plant and equipment

During the period, the group has acquired property, plant and equipment amounting to approximately HK\$38,214,000.

7. 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\$391,956,000 (31st December, 2002: approximately HK\$397,599,000) and their aging analysis is as follows:

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
0 to 3 months	233,710	248,318
4 to 6 months	46,894	56,295
7 to 9 months	36,429	34,675
Over 9 months	74,923	58,311
	391,956	397,599

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Trade and other payables

Included in trade and other payables are trade payables of approximately HK\$256,714,000 (31st December, 2002: approximately HK\$294,103,000) and their aging analysis is as follows:

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
0 to 3 months	178,160	207,615
4 to 6 months	30,756	49,733
7 to 9 months	19,051	10,917
Over 9 months	28,747	25,838
	256,714	294,103

9. Share capital

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2003 and 30th June, 2003	1,000,000,000	400,000
Issued and fully paid:		
At 1st July, 2002 and at 1st January, 2003	640,838,234	256,335
Exercise of warrants	88,000	35
At 30th June, 2003	640,926,234	256,370

10. Warrants

In accordance with the conditions attaching to the warrants of the Company, each of the warrants 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.

Details of the exercise of the Company's warrants during the period are set out in note 9.

On 10th June, 2003, all the remaining outstanding warrants, which entitle the registered holders to subscribe for 128,071,485 ordinary shares of HK\$0.40 each in the Company at an initial subscription price of HK\$0.40 per share, lapsed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Share options

Details of the Company's outstanding share options at 30th June, 2003 are as follows:

Name	Date of grant	Exercise period	Exercise price HK\$	Granted during year ended 31.12.2001	Number of share options outstanding as at 30.6.2003
Mr. Tang To	23.6.2001	21.10.2001 to 19.7.2003	0.41	2,100,000	2,100,000
Mr. Wong Yiu Ming	23.6.2001	21.10.2001 to 19.7.2003	0.41	1,500,000	1,500,000
Aggregate total of employees	23.6.2001	21.10.2001 to 19.7.2003	0.41	8,600,000	8,600,000
				12,200,000	12,200,000

12. Operating lease commitments

The Group as lessee

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Minimum lease payments during the period under operating leases in respect of:		
Land and buildings	7,611	6,200
Plant and machinery	225	284
	7,836	6,484

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, 2003 HK\$'000	31st December, 2002 HK\$'000
Within one year	13,328	12,908
In the second to fifth year inclusive	46,955	46,393
Over five years	98,742	105,234
	159,025	164,535

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Group as lessor

Property rental income earned during the period was approximately HK\$1,480,000 (2002: approximately HK\$1,659,000). The properties are expected to generate rental yields of 10% (2002: 10%) on an ongoing basis. All of the properties held have committed tenants for the next 1-2 years.

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

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Within one year	2,485	2,539
In the second to fifth year inclusive	1,147	2,001
	3,632	4,540

13. Other commitments

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	5,946	11,674
Investments	–	4,007
	5,946	15,681

14. Contingent liabilities

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	12,098	12,133

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. Transactions and balances with related parties

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

	30th June, 2003 HK\$'000	30th June, 2002 HK\$'000
Substantial shareholder and its subsidiaries:		
Licence fee paid (note i)	883	931
EDP charges received (note i)	92	83
Management fee paid (note i)	1,062	1,166
Companies controlled by certain directors:		
Management fee paid (note i)	498	498
EDP charges received (note i)	26	26
Minority shareholders:		
Rental payment (note i)	946	1,104
Consultancy fee paid (note i)	–	38
Interest paid (note iii)	848	810
Acquisition of additional interest in a subsidiary (note ii)	1,517	–
Associates:		
Rental income (note i)	24	93

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Substantial shareholder and its subsidiaries		
Balances due by the Group (note v)	5,521	5,790
Balances due to the Group (note v)	74	97
Minority shareholders:		
Balances due by the Group (note vi)	19,096	19,649
Balances due to the Group (note v)	19,585	16,717
Associates:		
Balance due by the Group (note iv)	1,083	1,441
Balances due to the Group (note iv)	12,445	10,804

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) The interest was charged at 4% to 10% per annum on the outstanding balances.
- (iv) The interest are charged at prime rate plus 0.5% per annum on the outstanding balances.
- (v) The balances are unsecured, interest free and have no fixed repayment term.
- (vi) The balances are unsecured, interest free and have no fixed repayment term. Other than an amount of approximately HK\$13,982,000 which bears interest at 4% to 10% per annum, the remaining balances are interest free.

BUSINESS REVIEW AND PROSPECTS

Business Review

The consolidated turnover of the Group for the first half of the year was approximately HK\$626,074,000, representing an increase of approximately 7% or HK\$40,137,000 over that of last year. During the period under review, the profit from operation was approximately HK\$22,391,000, the net profit attributable to shareholders was approximately HK\$7,426,000.

For the first half of 2003, the Company controlled the operating costs and reduced capital expenditure through its consolidation of resources and management by performance. In spite of the mixed results in various lines of business, continued growth was recorded in the total income.

For the period under review, the machinery business has shown some improvement and recorded a turnover of approximately HK\$266,607,000, representing an increase of approximately HK\$12,622,000 or approximately 5%, and a profit decrease to approximately HK\$30,435,000. Sales of machineries were adversely affected by the havoc wreaked by serious atypical respiratory syndrome ("SARS"), during which measures were taken in mainland China to segregate human or even goods flows. Such segregation hindered opportunities for business discussions; machinery inspection and delivery almost came to a halt. Business growth was thus contracted. Otherwise, our results would have been more promising for the first half of the year.

In addition to the plastic injection moulding machines, we also focused on the development of various machineries with a view to meeting different demands from market, such as the blow moulding machine, rubber injection moulding machine, CNC turret punch press and CNC press brake and shear developed by the Dongguan Research and Development Centre.

The sales of the plastic processing business was approximately HK\$99,927,000, representing a rise of approximately HK\$25,743,000 or 35% when compared with the same period last year. The profit was not satisfactory. As a majority of our customers of plastic products were product manufacturers, they had to purchase components from the suppliers in other provinces. During the segregation arrangements in the Mainland, production became standstill as a result of hampered flow of components. The plastic processing business suffered a hit. These factors, coupled with fluctuations in raw material prices, led to decline of profit in the first half of the year.

On the contrary, during the first half of the year, hygienic food container business registered growth in both sales and profit, with its domestic sales business performing relatively well. The results would have been even more satisfactory had it not been for a delay in the completion of construction of our new plant. This new plant is expected to complete and commence production by the year-end or early next year. At the same time, our business development is expected to benefit from a generally heightened sense of hygiene following the SARS incident.

During the period under review, there was an increase in the sale of printed circuit boards and the turnover amounted to approximately HK\$112,119,000, representing an increase of approximately HK\$15,775,000 or 16% as compared with the same period last year. Profit increased to approximately HK\$6,752,000. In respect of production and sales, thanks to our market strategies for developing high quality and reaching high standards, the pressure on us for price reduction was comparatively small. While producing printed circuit boards with single layer, two layers and multi-layers to meet market demand, in the meantime, we also attach significant importance to the development of new technology, such as the adoption of telfon and metal alloy boards as brand new materials with a view to strengthening the Company's competitive edge.

Since the market remained sluggish, the electronic audio business shrank and recorded a loss comparable to that of last year. For the first half of the year, the audio product sales was approximately HK\$29,882,000, representing a fall of approximately 47% as compared with the same period last year. The loss was approximately HK\$11,558,000. The management will continue its cost retrenchment measures to achieve a break-even.

For the period under review, the turnover of the trading business was approximately HK\$117,539,000, representing an increase of approximately HK\$24,081,000 or 26% over last year. Profit then fell to approximately HK\$6,027,000. When compared with last year, profit for the first half of the year showed a slight decline. Nevertheless, a restructuring of our product mix was followed by certain increases in sales. We shall further improve our distribution channels and strengthen the management of our distribution centres, and we believe that the trading business still offers bright prospects.

Prospects

Looking back to our results for the first half of the year, though slightly affected by SARS, we are still confident of and optimistic about our results for the whole year. The gradual development of China into a global production centre will have positive effect on the Group's core business. The Group will allocate more resources to strengthen its staff training and adopt an advanced enterprise resources planning software to optimize its management. Furthermore, the Group also plans to purchase advanced processing equipment and build new plants to meet the requirements of its overall development.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend in respect of the six months ended 30th June, 2003 (2002: Nil).

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. The Group's gearing ratio as at 30th June, 2003 was 6.3% (31st December, 2002: 2.7%) and the liquidity ratio was approximately 1.31 (31st December, 2002: approximately 1.28), which indicate that the Group is in sound financial position. At 30th June, 2003 shareholders' funds were approximately HK\$607,857,000, compared approximately HK\$601,177,000 at 31st December, 2002.

OTHER INFORMATION

SHARE OPTION SCHEME

The details of the share option scheme of the Company are also set out in note 11 to the condensed consolidated financial statements.

The following table discloses details of the Company's share options held by employees (including directors) during the period:

Name	Date of grant	Exercise period	Exercise price HK\$	Number of share options outstanding at 1.1.2003 and 30.6.2003
Tang To	23.6.2001	21.10.2001 to 19.7.2003	0.41	2,100,000
Wong Yiu Ming	23.6.2001	21.10.2001 to 19.7.2003	0.41	1,500,000
Aggregate total of employees	23.6.2001	21.10.2001 to 19.7.2003	0.41	8,600,000

Notes:

1. No option has been granted/lapsed or cancelled during the period.
2. As at 19th July, 2003, the employees have exercised 1,100,000 share options to subscribe for 1,100,000 shares.
3. All the remaining 11,100,000 share options granted on 23rd June, 2001 have lapsed on 19th July, 2003.

WARRANTS

The details of the warrants (Stock Code: 906) of the Company are also set out in note 10 to the condensed consolidated financial statements.

As at 10th June, 2003, 88,000 warrants have been exercised to subscribe for 88,000 shares. All the subscription rights attaching to the remaining warrants have expired on 10th June, 2003.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

During the period, the interests and short positions of the Directors and the Chief Executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under section 352 of the SFO or which were required, 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 of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), to be notified to the Company and the Stock Exchange are as follows:

Interests in the shares of the Company

Name of Director	Personal interests	Number of shares held			Total	Approximate % of total issued shares (if 0.01% or more)
		Family interests	Corporate interests	Other interests		
Tang To	2,700,000	–	3,145,824 (Note 1)	–	5,845,824	0.91
Wong Yiu Ming	8,814,611	–	–	–	8,814,611	1.38
Zhou Junqing	–	20,000 (Note 2)	–	–	20,000	–
Tang Kwan	–	–	–	270,086,411 (Note 3)	270,086,411	42.14
Kan Wai Wah	124,000	–	–	–	124,000	0.02

Notes:

- As at 30th June, 2003, 3,145,824 shares were held by Ginta Company Limited ("Ginta") which is wholly owned by a company which in turn is owned as to 50% by Mr. Tang To and 50% by his spouse.
- As at 30th June, 2003, 20,000 shares were held by the spouse of Ms. Zhou Junqing.
- As at 30th June, 2003, Mr. Tang Kwan was deemed to be interested in the block of 270,086,411 shares under the SFO through his deemed interests in Codo Development Limited ("Codo"). As at 30th June, 2003, Codo through its wholly owned subsidiaries, Cosmos Machinery (Holdings) Limited ("Cosmos Holdings") and Tai Shing Agencies Limited ("Tai Shing") was deemed to be interested in 270,086,411 shares. Codo is incorporated in Hong Kong and is owned as to (i) 25.06% by Keepsound Investments Limited, a Hong Kong company controlled by The Saniwell Trust, a trust established for the benefit of Mr. Tang Kwan's family, of which the spouse of Mr. Tang Kwan is one of the beneficiaries; (ii) 8.37% by Elegant Power Enterprises Limited ("Elegant Power"); (iii) 30.25% by Friendchain Investments Limited, 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; and (v) 20.23% by 7 individuals.

OTHER INFORMATION

Interests in the underlying shares of the Company

Name of Director	Nature of interests	Number of underlying shares pursuant to share options	Number of underlying shares pursuant to warrants	Total	Approximate % of total issued shares (if 0.01% or more)
Tang To	Personal	2,100,000	540,000	3,269,164	0.51
	Corporate	–	629,164 (Note 1)		
Wong Yiu Ming	Personal	1,500,000	1,762,922	3,262,922	0.51
Zhou Junqing	Family	–	4,000	4,000	–
Tang Kwan	Other	–	54,017,282 (Note 2)	54,017,282	8.43
Kan Wai Wah	Personal	–	24,800	24,800	–

Notes:

1. Mr. Tang To is deemed to be beneficially interested in 629,164 warrants by virtue of his interest in Ginta.
2. The 54,017,282 warrants are beneficially owned as to 23,089,200 warrants by Cosmos Holdings, and as to 30,928,082 warrants by 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.

The percentage shown was calculated based on the number of issued shares of the Company as at 30th June, 2003. Details of the share options and warrants held by the Directors and Chief Executives of the Company are shown respectively in the previous sections under the headings “Share Option Scheme” and “Warrants”.

As at 30th June, 2003, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors or Chief Executives or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, 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, 2003 which is significant in relation to the business of the Company and its subsidiaries.

As at 30th June, 2003, 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 30th June, 2003, the following interests in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests and short positions required to be kept under Section 336 of Part XV of the SFO:

Interests in the shares of the Company

Name of Substantial Shareholder	Direct interests	Number of shares held		Approximate % of interests
		Deemed interests	Total	
Cosmos Holdings	115,446,000	154,640,411 (Note 1)	270,086,411	42.14
Law Kit Fong	–	270,086,411 (Note 2)	270,086,411	42.14
Tai Shing	154,640,411	–	154,640,411	24.13
China Resources (Holdings) Company Limited ("CRC")	154,226,406	–	154,226,406	24.06

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 indirect interests in Codo. As at 30th June, 2003, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 270,086,411 shares.

Interests in the underlying shares of the Company

Name of Substantial Shareholder	Nature of interests	Number of underlying shares pursuant to warrants	Total	Approximate %
				of total issued shares (if 0.01% or more)
Cosmos Holdings	Direct	23,089,200	54,017,282	8.43
	Corporate	30,928,082 (Note 1)		
Law Kit Fong	Corporate	54,017,282 (Note 2)	54,017,282	8.43
Tai Shing	Direct	30,928,082	30,928,082	4.83
CRC	Direct	29,715,216	30,845,281	4.81
	Corporate	1,130,065 (Note 3)		

Notes:

1. Cosmos Holdings is interested in 30,928,082 warrants through its subsidiary, Tai Shing.
2. Ms. Law Kit Fong is deemed to be interested in the block of 54,017,282 warrants through her indirect interests in Codo which in turn is deemed to be interested in 54,017,282 warrants through its subsidiaries.
3. CRC is interested in 1,130,065 warrants through its subsidiary, China Resources Machinery Company Limited.

The percentage shown was calculated based on the number of issued shares of the Company as at 30th June, 2003. Details of the warrants held by substantial shareholders of the Company are shown respectively in the previous section under the heading "Warrants".

OTHER INFORMATION

Save as disclosed above, as at 30th June, 2003, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company and the Stock Exchange pursuant to Part XV of the SFO.

DIRECTOR'S 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 any underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of SFO); and none of the Directors, their spouses or children under the age of 18, had any right to subscribe for the shares or any underlying shares of the Company, or had exercised any such rights.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th June, 2003, 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 financial statements for the period ended 30th June, 2003 have been reviewed by the Committee which is of the opinion that such financial statements comply with the applicable accounting standards and requirements of the Stock Exchange and that, adequate disclosures have been made.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June, 2003, the Group has approximately 6,000 employees (2002: 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, 2003, 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 Article 103 of 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, 26th September, 2003