



COSMOS MACHINERY
Enterprises Limited



INTERIM REPORT

2004

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Tang To (*Chairman*)
Zhao Zhuoying
Wong Yiu Ming
Yan Wing Fai Richard
Li Tin Loi

Non-Executive Directors

Tang Kwan (*Honorary Chairman*)
He Zhiqi (*Vice Chairman*)
Kan Wai Wah

Independent Non-Executive Directors and Audit Committee Members

Liang Shangli
Yip Jeffery
Yeung Shuk Fan

GENERAL MANAGER

Wong Yiu Ming

COMPANY SECRETARY

Wu Yuk Kwai

REGISTERED OFFICE

8th Floor, Tai Tung Industrial Building
29-33 Tsing Yi Road
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E-mail: cmel@cosmel.com

PRINCIPAL BANKERS

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

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

Ting Ho Kwan & Chan

SHARE REGISTRAR

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: 118

CONDENSED CONSOLIDATED INCOME STATEMENT

INTERIM RESULTS

The board of directors (the “Board”) of Cosmos Machinery Enterprises Limited (the “Company”) announces that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2004 with comparative figures for the corresponding period in 2003 are as follows:

	Notes	Six months ended 30th June,	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	796,029	626,074
Cost of sales		(626,921)	(488,363)
Gross profit		169,108	137,711
Other revenue		8,769	11,593
Distribution costs		(53,857)	(43,318)
Administrative expenses		(88,348)	(82,068)
Other operating expenses		(806)	(1,527)
Allowance for bad and doubtful debts		(3,000)	–
Profit from operations	3	31,866	22,391
Finance costs		(9,243)	(9,154)
Investment income		340	524
Gain on disposal of subsidiaries		3,303	1,184
Release of negative goodwill of an associate		–	1,103
Share of results of associates		12,469	6,122
Profit before taxation		38,735	22,170
Taxation	4	7,529	4,619
Profit before minority interests		31,206	17,551
Minority interests		9,656	10,125
Net profit for the period		21,550	7,426
Earnings per share – basic	5	3.36 cents	1.16 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Non-current Assets			
Investment properties		24,400	24,400
Property, plant and equipment		415,722	412,658
Goodwill		1,968	1,960
Negative goodwill		(1,438)	(793)
Interests in associates		137,069	128,315
Investments in securities		10,698	10,698
Deferred tax assets		16,192	16,150
		604,611	593,388
Current Assets			
Inventories		486,307	413,984
Trade and other receivables	8	662,938	555,502
Bills receivable		8,139	10,077
Tax recoverable		784	1,287
Pledged bank deposits		5,263	13,969
Bank balances and cash		132,706	103,508
		1,296,137	1,098,327
Current Liabilities			
Trade and other payables	9	567,425	480,860
Bills payable		120,808	98,446
Amounts due to associates		1,441	1,441
Tax payable		14,073	9,838
Borrowings – due within one year		204,990	221,209
Obligations under finance leases and hire purchase contracts – due within one year		4,068	3,543
Bank overdrafts		41,198	38,379
		954,003	853,716
Net Current Assets			
		342,134	244,611
		946,745	837,999

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Capital and Reserves			
Share capital	10	256,810	256,810
Reserves		398,850	374,993
		655,660	631,803
Minority interests		178,947	170,482
Non-current Liabilities			
Borrowings – due after one year		98,733	20,931
Obligations under finance leases and hire purchase contracts – due after one year		1,691	3,101
Deferred tax liabilities		11,714	11,682
		112,138	35,714
		946,745	837,999

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 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 and 1st July, 2003	256,370	267,149	42,405	(13,919)	594	55,258	607,857
Exchange differences arising from translation of overseas operations	–	–	–	(2,671)	–	–	(2,671)
Deficit arising on revaluation	–	–	(1,499)	–	–	–	(1,499)
Net losses not recognised in the income statement	–	–	(1,499)	(2,671)	–	–	(4,170)
Exercise of share options	440	11	–	–	–	–	451
Realised on disposal of subsidiaries	–	–	–	15,157	(594)	–	14,563
Profit for the period	–	–	–	–	–	13,102	13,102
At 31st December, 2003 and 1st January, 2004	256,810	267,160	40,906	(1,433)	–	68,360	631,803
Exchange differences arising from translation of overseas operations	–	–	–	2,342	–	–	2,342
Net gains not recognised in the income statement	–	–	–	2,342	–	–	2,342
Realised on disposal of subsidiaries	–	–	–	(35)	–	–	(35)
Profit for the period	–	–	–	–	–	21,550	21,550
At 30th June, 2004	256,810	267,160	40,906	874	–	89,910	655,660

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th June,	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,452)	(7,902)
NET CASH USED IN INVESTING ACTIVITIES	(14,821)	(23,611)
NET CASH FROM FINANCING	47,053	46,646
INCREASE IN CASH AND CASH EQUIVALENTS	25,780	15,133
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	65,129	56,197
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	599	(166)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	91,508	71,164
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	132,706	100,131
Bank overdrafts	(41,198)	(28,967)
	91,508	71,164

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2003.

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, 2004

	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	132,591	132,850	330,272	40,551	159,765	-	-	796,029
Inter-segment sales	2,975	7,852	7,826	6	-	-	(18,659)	-
Total revenue	135,566	140,702	338,098	40,557	159,765	-	(18,659)	796,029

Inter-segment sales are charged at prevailing market rates

RESULT

Segment result	6,543	11,748	22,049	(8,945)	5,870	608	2,438	40,311
Unallocated corporate expenses								(8,445)
Profit from operations								31,866
Finance costs								(9,243)
Investment income								340
Gain on disposal of subsidiaries								3,303
Share of results of associates								12,469
Profit before taxation								38,735

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	–	–	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	–	(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

Turnover Six months ended 30th June,

	2004 HK\$'000	2003 HK\$'000
By geographical market:		
Hong Kong	212,080	177,448
Other regions in the People's Republic of China	485,002	365,227
Other Asia-Pacific countries	39,050	43,588
Europe	14,931	17,693
North America	44,966	22,118
	796,029	626,074

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Profit from operations

	For the six months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation		
Depreciation and amortisation on:		
Owned assets	26,908	27,318
Assets held under finance leases and hire purchase contracts	1,148	3,425
Amortisation of goodwill (included in other operating expenses)	739	1,527
Loss on disposal of property, plant and equipment	1,877	514
and after crediting:		
Release of negative goodwill to income (included in other revenue)	145	61

4. Taxation

	For the six months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	900	1,065
Overseas taxation	5,408	3,606
Deferred taxation	–	(731)
Taxation attributable to the Company and its subsidiaries	6,308	3,940
Share of tax on results of associates	1,221	679
	7,529	4,619

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) on the estimated assessable profits for the period.

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

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\$21,550,000 (2003: approximately HK\$7,426,000) and on the weighted average number of shares in issue during the period of 642,026,234 (2003: 640,848,444).

The computation of diluted earnings per share for period ended 30th June, 2003 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 the period.

Accordingly no diluted earnings per share has been calculated for period ended 30th June, 2003.

6. Interim dividend

The Board has resolved not to declare an interim dividend in respect of the six months ended 30th June, 2004 (2003: Nil).

7. Property, plant and equipment

During the period, the group has acquired property, plant and equipment amounting to approximately HK\$34,647,000.

8. Trade and other receivables

The Group allows an average credit period of 90 days to 120 days to its customers.

Included in trade and other receivables are trade receivables of approximately HK\$512,234,000 (31st December, 2003: approximately HK\$444,024,000) and their aging analysis is as follows:

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
0 to 3 months	356,240	302,306
4 to 6 months	47,999	49,587
7 to 9 months	31,805	27,776
Over 9 months	76,190	64,355
	512,234	444,024

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. Trade and other payables

Included in trade and other payables are trade payables of approximately HK\$368,827,000 (31st December, 2003: approximately HK\$287,961,000) and their aging analysis is as follows:

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
0 to 3 months	308,305	230,002
4 to 6 months	29,998	33,005
7 to 9 months	15,064	6,336
Over 9 months	15,460	18,618
	368,827	287,961

10. Share capital

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st January, 2004 and 30th June, 2004	1,000,000,000	400,000
Issued and fully paid:		
At 1st July, 2003	640,926,234	256,370
Exercise of share options	1,100,000	440
At 1st January, 2004 and at 30th June, 2004	642,026,234	256,810

11. Operating lease commitments

The Group as lessee

	30th June, 2004 HK\$'000	30th June, 2003 HK\$'000
Minimum lease payments during the period under operating leases in respect of:		
Land and buildings	6,106	7,611
Plant and machinery	894	225
	7,000	7,836

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, 2004 HK\$'000	31st December, 2003 HK\$'000
Within one year	11,370	12,297
In the second to fifth year inclusive	35,233	40,789
Over five years	93,287	93,633
	139,890	146,719

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

The Group as lessor

Property rental income earned during the period was approximately HK\$1,374,000 (2003: approximately HK\$1,480,000). The properties are expected to generate rental yields of 10% (2003: 10%) on an ongoing basis. All of the properties held have committed tenants for the next 1-2 years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	30th June, 2004	31st December, 2003
	HK\$'000	HK\$'000
Within one year	1,982	2,513
In the second to fifth year inclusive	758	848
	2,740	3,361

12. Other commitments

	30th June, 2004	31st December, 2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	25,494	9,755
Capital expenditure authorized but not contracted for in respect of the acquisition of property, plant and equipment	–	18,662

13. Contingent liabilities

	30th June, 2004	31st December, 2003
	HK\$'000	HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	6,092	6,092

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Pledge of assets

At the balance sheet date, the following assets were pledged by the Group to secure general banking facilities:

	Net book value	
	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Investment properties	13,500	13,500
Leasehold land and buildings	38,719	25,309
Plant and machinery	37,192	37,192
Bank deposits (Note)	5,263	13,969
	94,674	89,970

Note: The bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

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, 2004 HK\$'000	30th June, 2003 HK\$'000
Substantial shareholder and its subsidiaries:		
License fee paid (note i)	753	883
EDP charges received (note i)	92	92
Management fee paid (note i)	1,016	1,062
Companies controlled by certain directors:		
Management fee paid (note i)	498	498
EDP charges received (note i)	26	26
Minority shareholders:		
Purchases of finished goods (note i)	8,881	–
Rental paid (note i)	977	946
Interest paid (note iii)	932	848
Acquisition of additional interests in subsidiaries (note ii)	6,542	1,517
Disposal of interests in subsidiaries (note ii)	10,191	–
Associates:		
Rental income (note i)	24	24

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Substantial shareholder and its subsidiaries		
Balances due by the Group (note iv)	5,784	5,953
Balances due to the Group (note iv)	46	88
Minority shareholders:		
Balances due by the Group (note v)	21,491	20,640
Balances due to the Group (note iv)	13,605	11,593
Associates:		
Balance due by the Group (note iv)	1,441	1,441
Balances due to the Group (note iv)	17,332	17,021

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 10% per annum on the outstanding balances.
- (iv) The balances are unsecured, interest free and have no fixed repayment term.
- (v) The balances are unsecured, interest free and have no fixed repayment term. Other than an amount of approximately HK\$15,762,000 which bears interest at 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\$796,029,000, representing an increase of approximately 27% or HK\$169,955,000 over that of last year. During the period under review, the profit from operation was approximately HK\$31,866,000, the net profit attributable to shareholders was approximately HK\$21,550,000, representing a growth of nearly threefold compared with the corresponding period last year.

Despite a more vibrant market in the first half of the year as compared with the corresponding period last year, the operating environment was subject to constant changes caused by the surge of raw material prices, the shortage of electricity supply in the Mainland, and the macro-economic control and adjustment policy implemented by the PRC Government. The challenges brought about by the adverse market conditions during the SARS outbreak, however, has enabled the management to boost the Group's consolidated results during the period under review by capitalizing on its awareness of crisis management and unrelenting efforts in market expansion.

The turnover of machinery business increased by 24% or approximately HK\$63,665,000. Meanwhile, the Group invested over 10 million dollars to strengthen its integrated design capability in mechanical, electric, hydraulics and their application in our machinery products, as well as in the marketing and promotion of new products, including blow moulding machine, extrusion machine and CNC turret punching machine. As a result, the profitability of the period was affected and the profit decreased by approximately 28%. The Group will hold fast to its new development plan for the machinery business, which is expected to gradually produce results in the near future.

As a result of the efforts to seek new customers during the difficult time last year, the turnover of plastic business in the first half of the year grew significantly by 33% or approximately HK\$32,923,000 as compared with the corresponding period last year. Despite the fluctuations in plastic resin prices, the business has returned to profitability.

During the period under review, the printed circuit board business maintained its growth and recorded an increase of over 40% in turnover. The business continued to register profit despite the heavy pressure from the rise of raw material prices. We will closely monitor the effect of the increase in raw material prices of printed circuit boards. The Group is generally optimistic and prudent about the prospects of printed circuit board business.

Thanks to the cost retrenchment measures, the loss of the audio products business has been reduced. Under the redefined business plan, the turnover rose sharply by 36%, and there is a stable amount of orders in hand for the second half of the year. We are confident that the cost retrenchment measures of last year will help the business achieve a break-even level.

The industrial consumables segment of the trading business continued to record an increase in sales by 13%. Although the weakening of U.S. dollars has driven up the costs during the period, no corresponding price adjustment was made in view of the intense market competition. The profit increased slightly by 9%. Our trading business will develop at a steady pace together with gradual profit growth.

PROSPECTS

The Group anticipates that the abovementioned unfavourable factors will persist in the second half of the year. However, the management, who has overcome the challenges brought about by the adverse circumstances, will adhere to a people-oriented policy with emphasis on the training and recruitment of high-calibre talents. It will pursue realistic growth and development through appropriate use of resources. Some of the unfavourable factors at present can actually be transformed into our business opportunities. It can be seen from the changes in the Group's operations in the first half of the year that we are back on track towards profitability. The management holds an optimistic view as to the results of this year.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend in respect of the six months ended 30th June, 2004 (2003: Nil).

PROPOSED BONUS ISSUE OF SHARES

The Board recommends a bonus issue of shares to the shareholders of the Company whose names appear on the register of members of the Company on 19th October, 2004 on the basis of 1 bonus share for every 10 existing shares held by such shareholders on 19th October, 2004. Fractional bonus shares will not be allotted to shareholders but will be aggregated and sold, and the net proceeds therefrom will be retained for the benefit of the Company. The bonus issue is conditional upon (a) the approval of the shareholders of the Company at an extraordinary general meeting of the Company to be convened; and (b) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting or agreeing to grant the listing of and permission to deal in the bonus shares. After fulfilment of the conditions mentioned above, the bonus shares will be issued at par, credited as fully paid-up, and will rank pari passu in all respects with the shares then in issue except that they will not rank for the bonus issue mentioned herein. Details of the proposed bonus issue will be contained in a circular of the Company to be despatched to shareholders on or before 30th September, 2004 separately.

CLOSE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15th October, 2004 to 19th October, 2004 (both dates inclusive), during which no transfer of share will be registered. In order to qualify for the proposed bonus issue of shares, all completed and signed transfer forms for transfer of shares accompanied by the relevant share certificate(s) must be lodged with the Company's share registrar, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 14th October, 2004.

FINANCIAL REVIEW

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, 2004 was 15% (31st December, 2003: 3.8%) and the liquidity ratio was approximately 1.36 (31st December, 2003: approximately 1.29), which indicate that the Group is in sound financial position. At 30th June, 2004, shareholders' funds were approximately HK\$655,660,000, compared approximately HK\$631,803,000 at 31st December, 2003.

CONTINGENT LIABILITIES

	30th June, 2004	31st December, 2003
	HK\$'000	HK\$'000
Guarantees given to financial institutions in respect of credit facilities utilized by outsiders	6,092	6,092

PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged by the Group to secure general banking facilities:

	Net book value	
	30th June, 2004	31st December, 2003
	HK\$'000	HK\$'000
Investment properties	13,500	13,500
Leasehold land and buildings	38,719	25,309
Plant and machinery	37,192	37,192
Bank deposits (Note)	5,263	13,969
	94,674	89,970

Note: The bank deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, Renminbi or United States Dollars. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, the Group had certain fixed interest rate borrowings but had not engaged in any financial instruments for hedging or speculative activities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY

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 Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on 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	1.37
Zhou Junqing	–	20,000 (Note 2)	–	–	20,000	–
Tang Kwan	–	–	–	270,086,411 (Note 3)	270,086,411	42.07
Kan Wai Wah	124,000	–	–	–	124,000	0.02

Notes:

- As at 30th June, 2004, 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, 2004, 20,000 shares were held by the spouse of Ms. Zhou Junqing. Ms. Zhou Junqing has resigned as Director with effect from 22nd March, 2004.
- As at 30th June, 2004, 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, 2004, 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

The percentage shown was calculated based on the number of issued shares of the Company as at 30th June, 2004.

As at 30th June, 2004, other than as disclosed above and certain nominee shares held in trust for the Group, none of the Directors, chief executives of the Company 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, 2004 which is significant in relation to the business of the Company and its subsidiaries.

As at 30th June, 2004, 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, 2004, the following interests in 5% or more in the 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	Number of shares held			Approximate % of interests
	Direct interests	Deemed interests	Total	
Cosmos Holdings	115,446,000	154,640,411 (Note 1)	270,086,411	42.07
Law Kit Fong	–	270,086,411 (Note 2)	270,086,411	42.07
Tai Shing	154,640,411	–	154,640,411	24.09
China Resources (Holdings) Company Limited	154,226,406	–	154,226,406	24.02

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, 2004, Codo through its wholly owned subsidiaries, Cosmos Holdings and Tai Shing, was deemed to be interested in 270,086,411 shares.

The percentage shown was calculated based on the number of issued shares of the Company as at 30th June, 2004.

Save as disclosed above, as at 30th June, 2004, 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.

DIRECTORS' AND CHIEF EXECUTIVES' 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 and chief executives of the Company 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, 2004, there has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

AUDIT COMMITTEE

The audit committee (the "Committee") of the Company comprises three independent non-executive Directors. The Group's unaudited condensed consolidated financial statements for the period ended 30th June, 2004 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, 2004, the Group has approximately 6,000 employees (2003: 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.

OTHER INFORMATION

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, 2004, 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 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.

DIRECTORS

As at the date hereof, the Board is comprised of eleven Directors, of which five are executive Directors, namely Mr. Tang To, Mr. Zhao Zhuoying, Mr. Wong Yiu Ming, Mr. Yan Wing Fai Richard and Mr. Li Tin Loi, and three are non-executive Directors, namely Mr. Tang Kwan, Mr. He Zhiqi and Mr. Kan Wai Wah and three are independent non-executive directors, namely Mr. Liang Shangli, Mr. Yip Jeffery and Ms. Yeung Shuk Fan.

APPRECIATION

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

On behalf of the Board
TANG To
Chairman

Hong Kong, 23rd September, 2004