

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Accounting policies

These unaudited consolidated condensed interim accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the Listing Rules of the Stock Exchange of Hong Kong Limited.

The accounting policies and method of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31 May 2000.

2. Turnover

The Group is principally engaged in construction works, trading of machinery and building materials and letting of machinery and investment properties.

An analysis of the Group’s turnover and contribution to operating profit/(loss) for the period by principal activities and markets is as follows:

| | Turnover | | Operating profit/(loss) | |
|---|------------------|----------------|-------------------------|---------------|
| | Six months ended | | Six months ended | |
| | 30 November | | 30 November | |
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Principal activities: | | | | |
| Construction | | | | |
| Landslip preventive/ remedial works | 4,723 | 5,972 | 18 | 241 |
| Roads and drainage | 16,486 | 62,166 | 90 | 4,430 |
| Building, demolition and decoration | 118,682 | 84,958 | 1,363 | 5,368 |
| Marine and port works | 63 | 170 | (174) | (320) |
| Site formation | 325 | 17,880 | 3 | 1,524 |
| Leasing | 7,723 | 11,014 | 1,870 | 2,303 |
| Sale of machinery and building materials | 1,965 | 5,742 | (357) | (250) |
| | <u>149,967</u> | <u>187,902</u> | <u>2,813</u> | <u>13,296</u> |

| | Turnover | | Operating profit/(loss) | |
|-----------------------------------|------------------|----------------|-------------------------|---------------|
| | Six months ended | | Six months ended | |
| | 30 November | | 30 November | |
| | 2000 | 1999 | 2000 | 1999 |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Principal markets: | | | | |
| Hong Kong | 149,883 | 160,201 | 2,942 | 10,519 |
| The People's Republic of China | 84 | 19,001 | (129) | 897 |
| Overseas | — | 8,700 | — | 1,880 |
| | <u>149,967</u> | <u>187,902</u> | <u>2,813</u> | <u>13,296</u> |

3. Operating profit

Operating profit is stated after charging the following:

| | Six months ended | |
|---|------------------|----------|
| | 30 November | |
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Depreciation | | |
| Owned fixed assets | 3,829 | 3,587 |
| Leased fixed assets | 2,507 | 2,669 |
| Amortization of timber concession rights | 1,626 | — |
| Amortization of expenses in connection with issue of convertible notes | 663 | — |
| Amortization of premium on redemption of convertible note | 158 | — |

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits for the period. Overseas profits tax represents taxation charge relating to income derived in the People's Republic of China which is calculated at the rate of 33%.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

| | Six months ended | |
|-----------|------------------|--------------|
| | 30 November | |
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 1,130 | 1,927 |
| Overseas | — | 583 |
| | <u>1,130</u> | <u>2,510</u> |

5. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 November 2000 (1999: it represents underprovision of dividends for the year ended 31 May 1998).

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$1,683,000 (1999: HK\$10,786,000) and the weighted average of 353,578,982 (1999: 211,800,547) ordinary shares in issue during the period.

There is no diluted earnings per share since the Company has no dilutive potential ordinary shares at 30 November 2000 (1999: nil).

7. Timber concession rights

Timber concession rights are stated at cost which represent the purchase consideration paid on acquisition of a subsidiary holding the timber concession rights, after deduction of net assets value other than the timber concession rights, less accumulated amortization.

Amortization is calculated by unit production method over their expected total production unit during the approved duration. The expected total production unit is based on the valuation report prepared by an independent valuer. The valuation report which was prepared based on present value of future net cash flows of operation showed that the timber concession rights had a commercial value of HK\$152,100,000.

8. Loan receivable

Pursuant to two agreements (the "Agreements") entered into by the Group on 1 May 2000 and 1 June 2000, a total amount of HK\$72,300,000 due to the Group was assigned to an independent third party (the "Assignee"). The Assignee is the legal and beneficial owner of forestry concessions with 54,000 hectares in the district of Sipaliwini, Suriname (the "Forestry Concessions"). The Assignee had undertaken to keep the Forestry Concessions free from encumbrance until all the outstanding indebtedness due to the Group has been fully repaid. The amount is interest bearing at 8% per annum and repayable over a period of five years through the supply of timber. Further details are set out in the Management Discussion and Analysis of the Company's annual reports dated 23 November 2000.

9. Trade receivable

The aging analysis of trade receivable is as follows:

| | 0-30 days HK\$'000 | 31-60 days HK\$'000 | 61-90 days HK\$'000 | 91-120 days HK\$'000 | Over 120 days HK\$'000 | Total HK\$'000 |
|-----------------------------|--------------------------|---------------------------|---------------------------|----------------------------|------------------------------|-------------------|
| Balance at 30 November 2000 | <u>20,899</u> | <u>8,605</u> | <u>4,209</u> | <u>4,000</u> | <u>46,973</u> | <u>84,686</u> |
| Balance at 31 May 2000 | <u>30,484</u> | <u>25,230</u> | <u>11,463</u> | <u>2,753</u> | <u>41,897</u> | <u>111,827</u> |

The Group granted to its trade customers a normal term of credit period of 30-90 days.

10. Trade payable

The aging analysis of trade payable is as follows:

| | 0-30 days HK\$'000 | 31-60 days HK\$'000 | 61-90 days HK\$'000 | 91-120 days HK\$'000 | Over 120 days HK\$'000 | Total HK\$'000 |
|-----------------------------|--------------------------|---------------------------|---------------------------|----------------------------|------------------------------|-------------------|
| Balance at 30 November 2000 | <u>23,626</u> | <u>16,016</u> | <u>7,163</u> | <u>1,892</u> | <u>31,433</u> | <u>80,130</u> |
| Balance at 31 May 2000 | <u>17,060</u> | <u>17,370</u> | <u>5,497</u> | <u>1,146</u> | <u>22,158</u> | <u>63,231</u> |

11. Long-term liabilities

| | 30 November 2000 HK\$'000 | 31 May 2000 HK\$'000 |
|--|---------------------------------|----------------------------|
| Bank loans, secured | 27,383 | 22,084 |
| Obligations under finance leases | <u>12,068</u> | <u>16,954</u> |
| | 39,451 | 39,038 |
| Current portion of long-term liabilities | <u>(13,988)</u> | <u>(15,348)</u> |
| | <u>25,463</u> | <u>23,690</u> |

12. Share capital

| | No. of shares of HK\$0.1 each '000 | Nominal Value HK\$'000 |
|-------------------------------------|--|------------------------------|
| Authorised: | | |
| At 1 June 2000 and 30 November 2000 | 1,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 June 2000 | 320,430 | 32,043 |
| On conversion of convertible notes | 50,624 | 5,062 |
| At 30 November 2000 | 371,054 | 37,105 |

On 17 May 2000, the Group issued an aggregate principal amount of HK\$24,000,000 5.5% convertible notes due May 2003, of which, HK\$18,000,000 were for expanding the building materials activities and HK\$6,000,000 were for working capital purposes. On 3 August 2000 and 4 August 2000, 44,296,000 shares and 6,328,000 shares were issued respectively, as all noteholders exercised their rights to convert the notes into shares of the Company.

13. Reserves

| | Share Premium HK\$'000 | Capital Reserve HK\$'000 | Exchange Reserve HK\$'000 | Retained Earnings HK\$'000 | Total HK\$'000 |
|---------------------------------------|------------------------------|--------------------------------|---------------------------------|----------------------------------|-------------------|
| At 1 June 2000 | 122,214 | 10,802 | 18 | 91,182 | 224,216 |
| On conversion of convertible notes | 19,096 | — | — | — | 19,096 |
| Profit for the period | — | — | — | 1,683 | 1,683 |
| At 30 November 2000 | 141,310 | 10,802 | 18 | 92,865 | 244,995 |

14. Convertible notes

| | 30 November 2000 HK\$'000 | 31 May 2000 HK\$'000 |
|---------------------------------------|--|-------------------------------------|
| Convertible notes | 24,000 | 24,000 |
| Unamortised notes issue expenses | — | (663) |
| Amortization of premium on redemption | 158 | — |
| On conversion (note 12) | <u>(24,158)</u> | <u>—</u> |
| | <u>—</u> | <u>23,337</u> |

15. Contingent liabilities

At 30 November 2000, the Group had contingent liabilities in respect of performance bonds not provided for amounting to HK\$6,158,000 (31 May 2000: HK\$6,518,000).

At 30 November 2000, a developer had launched arbitration proceedings against the Group whereby the developer claimed a sum of approximately HK\$3,200,000 (31 May 2000: HK\$3,200,000) for breach of the construction contract and other relief. No provision on the above has been made as the directors considered that no material loss will be incurred as a result of such proceedings.

In addition to the above, and in the normal course of business, the Group has received claims for damages and injuries. No provision has been made for these claims as they are either covered by insurance or will be indemnified by other parties.

16. Related party transactions

During the period, the Group entered into the following transactions in the normal course of business with its related companies

| | | Six months ended 30 November | |
|--|-----|---|--------------------------|
| | | 2000 HK\$'000 | 1999 HK\$'000 |
| Handling fees payable to | (a) | | |
| Well-Joint Machinery Company Limited | (b) | 203 | 144 |
| Rental of land and buildings payable to | (a) | | |
| Winmost Investments Limited | (c) | 384 | 384 |
| Rental of machinery receivable from | (a) | | |
| Jilin Jitai Industrial Company Limited | (c) | — | 8,700 |
| Contract revenue receivable from | | | |
| Winfast Engineering Limited | (d) | 91,467 | 24,667 |
| Purchase of investment properties and car parks from Tonlok Limited | (e) | — | 44,195 |

Notes:

- (a) These constitute connected transactions under the Listing Rules. The Company has been granted waiver of these transactions for a period of three years commencing from the date of listing of the Company's shares, from strict compliance with the relevant requirements of the Listing Rules for connected transactions.
- (b) Handling fees payable to the related companies in respect of acquisition of construction machinery and materials.
- (c) Rental of machinery, land and buildings payable to/receivable from related companies were charged at prevailing market rates.
- (d) This is a wholly owned subsidiary of Asia Standard International Group Limited, Asia Standard International Limited, Asia Standard Development (Holdings) Limited and Richcorp Investments Holdings Limited, which are deemed to have interests in the Company through the shares held by Tonlok Limited, a shareholder of the company. The contract revenues were received in accordance with the terms and conditions of the underlying agreement dated 10 July 1999. Further details of the transaction were set out in the Company's announcement dated 24 September 1999.
- (e) This is a shareholder of the Company. The above purchases were settled by the allotment and issue of 40,000,000 new shares of the Company plus a cash payment. Further details of the transaction were set out in the Company's announcement dated 24 September 1999.

17. Subsequent events

On 22 January 2001, the Company entered into a placing and underwriting agreement for the placing of a 8% convertible note (the "Note") amounting to HK\$10,000,000 to an independent investor. The outstanding principal amount of the Note, together with a premium of 9% of the outstanding principal amount and interest accrued from the last interest payment date up to and excluding the date of repayment, will be repaid on 31 January 2003. The Company shall have the right to redeem the Note at a price equal to the outstanding principal amount together with a premium of 10% of the outstanding principal amount and interest accrued.

The Note are convertible at a conversion price of HK\$0.16 per share, subject to adjustments (including bonus issue, rights issue or other events which have a diluting effect on the issued share capital of the Company), to ordinary shares of HK\$0.1 each of the Company at any time between 31 January 2001 to 17 January 2003.

The net proceeds of placing of the Note, HK\$9,600,000 was used for general working capital purposes.

By Order of the Board
Chan Man Chuen
Chairman

Hong Kong, 27 February 2001