

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Basis of preparation

The condensed financial statements have been prepared under the historical cost convention and 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 (the "Listing Rules") and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, except that comparative figures are not presented for the condensed consolidated cash flow statement included in this, the first interim financial report relating to accounting periods ending on or after 1 July 2000. Such departure from SSAP 25 is permitted under the Listing Rules.

### 2. Principal accounting policies

The accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31 December 2000.

### 3. Segment information

	Turnover		Attributable (loss) profit from operations	
	1.1.2001 to 30.6.2001 <i>US\$'000</i>	1.1.2000 to 30.6.2000 <i>US\$'000</i>	1.1.2001 to 30.6.2001 <i>US\$'000</i>	1.1.2000 to 30.6.2000 <i>US\$'000</i>
<b>Business segments</b>				
Manufacture and sale of:				
Blockboard	11,720	19,210	(634)	281
Particle board	3,541	7,726	328	960
Furniture	–	9,232	–	482
Plywood-based products	209	480	(34)	(200)
Others	2,011	4,667	20	(875)
	<u>17,481</u>	<u>41,315</u>	<u>(320)</u>	<u>648</u>
<b>Geographical segments</b>				
People's Republic of China, excluding Hong Kong ("PRC")	16,549	29,982	(383)	(36)
United States of America	–	9,080	–	584
Others	932	2,253	63	100
	<u>17,481</u>	<u>41,315</u>	<u>(320)</u>	<u>648</u>

#### 4. Other revenue

	<b>1.1.2001 to 30.6.2001 US\$'000</b>	<b>1.1.2000 to 30.6.2000 US\$'000</b>
Other revenue comprises:		
Interest income	24	7
Value added tax refund ( <i>note</i> )	839	817
Other operating income	714	596
	<u>1,577</u>	<u>1,420</u>

*Note:* Certain subsidiaries established in the PRC are involved in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations governing the value added tax ("VAT") treatment of such subsidiaries, during the six months ended 30 June 2001, VAT refunds totalling US\$839,000 (1.1.2000 to 30.6.2000: US\$817,000) were obtained by those subsidiaries.

#### 5. Administrative expenses

Included in administrative expenses is a provision for bad and doubtful debts amounting to US\$261,000 (1.1.2000 to 30.6.2000: US\$951,000).

#### 6. (Loss) profit from operations

During the period, the (loss) profit from operations has been stated after charging depreciation of US\$2,647,000 (1.1.2000 to 30.6.2000: US\$2,935,000) in respect of the Group's property, plant and equipment.

#### 7. Net gain arising on restructuring

The gain represents loans and accrued interest waived by certain of the Group's bankers and the liquidator of a financial institution in Hong Kong (the "Creditors"), less legal and professional fees, pursuant to a compromise agreement entered into between the Company and the Creditors as part of a restructuring scheme (the "Restructuring Scheme"), which was approved by the shareholders in a special general meeting held on 23 March 2001. Details of the Restructuring Scheme are set out in a circular dated 5 February 2001 issued in connection with the restructuring.

#### 8. Write back of provision for loss for bank guarantees granted to associates

The provision represents bank guarantees granted to certain associates in the financial year ended 31 December 1999. Following the completion of the Restructuring Scheme on 30 March 2001, the guarantees were released and the provision has accordingly been written back to the Group's income statement.

## 9. Taxation

	<b>1.1.2001</b> <b>to</b> <b>30.6.2001</b> <i>US\$'000</i>	<b>1.1.2000</b> <b>to</b> <b>30.6.2000</b> <i>US\$'000</i>
The tax (charge) credit comprises:		
Current taxation		
Company and subsidiaries:		
Hong Kong Profits Tax ( <i>note a</i> )	–	–
PRC income tax ( <i>note b</i> )	(45)	(156)
	<u>(45)</u>	<u>(156)</u>
Associates		
PRC income tax ( <i>note b</i> )	(50)	–
	<u>(50)</u>	<u>–</u>
Deferred taxation		
Company and subsidiaries	(83)	60
	<u>(178)</u>	<u>(96)</u>

- (a) No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for the period.
- (b) As Sino-foreign equity joint venture companies, the subsidiaries and associates established in the PRC are exempted from paying PRC income tax for the first two profit-making years following by a 50% reduction in the income tax rates in the following three years. PRC income tax is provided for with reference to the applicable tax rates on the estimated assessable profits of those subsidiaries and associates.
- (c) The Group had no material unprovided deferred taxation for the period.

## 10. Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	<b>1.1.2001 to 30.6.2001 US\$'000</b>	<b>1.1.2000 to 30.6.2000 US\$'000</b>
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share	<u>28,881</u>	<u>(4,347)</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	3,833,224,383	<u>828,448,317</u>
Effect of dilutive warrants	<u>113,014,094</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>3,946,238,477</u>	

No diluted loss per share is presented for the period from 1 January 2000 to 30 June 2000 as the exercise of the outstanding options would result in a decrease in the loss per share.

## 11. Additions to property, plant and equipment

During the period, the Group spent approximately US\$490,000 (1.1.2000 to 30.6.2000: US\$1,017,000) on acquisition of property, plant and equipment.

## 12. Trade and other receivables

The Group has a policy of allowing an average credit period of 90 days to its trade customers.

At 30 June 2001, the balance of trade and other receivables included trade debts of US\$8,936,000 (31.12.2000: US\$7,462,000). The aging analysis of trade debtors at the balance sheet date is as follows:

	<b>30.6.2001 US\$'000</b>	<b>31.12.2000 US\$'000</b>
0 – 90 days	7,250	5,940
91 – 180 days	1,292	1,256
More than 180 days	<u>394</u>	<u>266</u>
	<u>8,936</u>	<u>7,462</u>

### 13. Trade and other payables

At 30 June 2001, the balance of trade and other payables included trade creditors of US\$5,614,000 (31.12.2000: US\$3,434,000). The aging analysis of trade creditors at the balance sheet date is as follows:

	<b>30.6.2001</b>	<b>31.12.2000</b>
	<i>US\$'000</i>	<i>US\$'000</i>
0 – 90 days	4,344	2,067
91 – 180 days	66	263
More than 180 days	1,204	1,104
	<u>5,614</u>	<u>3,434</u>

### 14. Share capital

	<b>Number of shares</b>	<b>Amount</b>
		<i>US\$'000</i>
<i>Authorised:</i>		
At 1 January 2001, ordinary shares of US\$0.02 each	5,000,000,000	100,000
Increase in number of shares by reduction of nominal value of ordinary shares from US\$0.02 each to US\$0.001 each on 23 March 2001	<u>95,000,000,000</u>	<u>–</u>
At 30 June 2001, ordinary shares of US\$0.001 each	<u>100,000,000,000</u>	<u>100,000</u>
	<b>Number of shares</b>	<b>Amount</b>
		<i>US\$'000</i>
<i>Issued and fully paid:</i>		
At 1 January 2001, ordinary shares of US\$0.02 each	828,448,317	16,569
Reduction of nominal value of issued ordinary shares from US\$0.02 each to US\$0.001 each on 23 March 2001	–	(15,741)
Issue of shares of US\$0.001 each pursuant to the Restructuring Scheme	5,422,564,000	5,423
Participation offer of shares of US\$0.001 each	539,178,317	539
Issue of shares of US\$0.001 each pursuant to exercise of warrants	<u>18,076,744</u>	<u>18</u>
At 30 June 2001, ordinary shares of US\$0.001 each	<u>6,808,267,378</u>	<u>6,808</u>

Pursuant to a special resolution passed in a special general meeting held on 23 March 2001, the nominal value of the issued shares of US\$0.02 each was reduced by US\$0.019 to US\$0.001. Accordingly, the issued share capital of the Company of US\$16,569,000 was reduced by US\$15,741,000 to US\$828,000. The surplus amount of US\$15,741,000 arising from such reduction was set off against the deficit of the Company.

## 15. Reserves

	Share premium US\$'000	Capital reserve US\$'000	Warrant reserve US\$'000	General reserve US\$'000	Exchange translation reserve US\$'000	Capital redemption reserve US\$'000	Accu- mulated losses US\$'000	Total US\$'000
At 1 January 2000	26,428	740	-	2,405	(379)	4	(49,464)	(20,266)
Transfer from accumulated losses	-	-	-	262	-	-	(262)	-
Exchange difference arising from translation of operations of subsidiaries and associates	-	-	-	-	(1,150)	-	-	(1,150)
Disposal and deconsolidation of subsidiaries	-	(24)	-	(936)	783	-	-	(177)
Net loss for the year	-	-	-	-	-	-	(10,349)	(10,349)
At 1 January 2001	26,428	716	-	1,731	(746)	4	(60,075)	(31,942)
Transfer from accumulated losses	-	-	-	331	-	-	(331)	-
Exchange difference arising from translation of operations of subsidiaries and associates	-	-	-	-	522	-	-	522
Reduction of capital from US\$0.02 each to US\$0.001 each on 23 March 2001	-	-	-	-	-	-	15,741	15,741
Arising from issue of new shares and warrants	11,935	-	3,652	-	-	-	-	15,587
Conversion of warrants	78	-	(49)	-	-	-	-	29
Net profit for the period	-	-	-	-	-	-	28,881	28,881
At 30 June 2001	<u>38,441</u>	<u>716</u>	<u>3,603</u>	<u>2,062</u>	<u>(224)</u>	<u>4</u>	<u>(15,784)</u>	<u>28,818</u>

## 16. Post balance sheet events

- (a) One of the Group's associates, Tianjian Fortune Timber Co., Ltd. ("TFT") is currently being sued by its bankers to repay bank loans of approximately RMB73.6 million. Part of such loans have been guaranteed by another associate, Tianjian Fortune Furniture Co. Ltd. ("TFFCL"). Both TFT and TFFCL are currently in negotiations with the bankers of TFT for the restructuring of the borrowings of TFT and for rearranging the guarantees granted by TFFCL. As the negotiations have not been completed as of the date of this report and the effect of this litigation on the Group's share of TFFCL's net assets of US\$3,317,880 at 30 June 2001 is dependent on the outcome of the negotiations, the directors are of the view that adjustment regarding this matter would not be practicable for the time being.

- (b) On 20 August 2001, the Company entered into a subscription agreement with Global Innovation Investment Limited (“GILL”) pursuant to which the Company has conditionally agreed to allot and issue to GILL an aggregate of 790 million new shares at a price of HK\$0.04 per subscription share. The subscription of shares was completed on 3 September 2001.