

# COMPANION BUILDING MATERIAL INTERNATIONAL HOLDINGS LIMITED



INTERIM REPORT  
For the six months ended 30 September 2001



**RESULTS**

The board of directors (“Directors”) of Companion Building Material International Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2001. The interim results of the Group for the six months ended 30 September 2001 are unaudited and have been reviewed by the Company’s audit committee and auditors.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 September 2001*

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2001</b>	2000
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	4	<b>139,270</b>	476,549
Cost of sales		<b>(103,884)</b>	(410,004)
Gross profit		<b>35,386</b>	66,545
Other revenue		<b>3,141</b>	4,651
Selling expenses		<b>(10,584)</b>	(8,858)
Administrative expenses		<b>(38,866)</b>	(33,477)
(Loss) profit from operations		<b>(10,923)</b>	28,861
Finance costs		<b>(13,832)</b>	(13,879)
Gain (loss) on deemed disposal of an associate		<b>2,928</b>	(464)
Provision for an onerous contract	11	<b>(23,400)</b>	–
Share of results of associates		<b>(50,452)</b>	7,626
(Loss) profit before taxation	5	<b>(95,679)</b>	22,144
Taxation	6	<b>(153)</b>	(1,815)
(Loss) profit before minority interests		<b>(95,832)</b>	20,329
Minority interests		<b>(445)</b>	(3,383)
Net (loss) profit for the period		<b><u>(96,277)</u></b>	<b><u>16,946</u></b>
(Loss) earnings per share ( <i>cents</i> )	7		
Basic		<b><u>(6.64)</u></b>	<b><u>1.54</u></b>
Diluted		<b><u>N/A</u></b>	<b><u>1.33</u></b>



**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 September 2001

	<i>Notes</i>	<b>30 September 2001 (Unaudited) HK\$'000</b>	<b>31 March 2001 (Audited) HK\$'000</b>
Non-current assets			
Property, plant and equipment	8	<b>250,166</b>	263,853
Factory under construction		<b>16,553</b>	14,291
Interests in associates		<b>86,082</b>	133,183
Investments in securities		<b>1,558</b>	1,558
Loans receivable		<b>1,129</b>	2,358
		<b>355,488</b>	415,243
Current assets			
Inventories		<b>82,334</b>	85,160
Properties under development held for sale		<b>56,353</b>	55,000
Investments in securities		<b>2,284</b>	5,702
Tax recoverable		<b>820</b>	660
Current portion of loans receivable		<b>4,913</b>	9,729
Amounts due from associates		<b>73,779</b>	79,961
Amounts due from minority shareholders of subsidiaries		<b>2,375</b>	2,376
Amounts due from customers for contract work		<b>97</b>	297
Trade debtors	9	<b>115,759</b>	95,671
Other debtors, deposits and prepayments		<b>23,690</b>	38,019
Time deposits		<b>–</b>	12,000
Bank balances and cash		<b>19,404</b>	11,881
		<b>381,808</b>	396,456
Current liabilities			
Bank overdrafts		<b>3,826</b>	3,144
Bills payable and import loans		<b>16,033</b>	18,338
Rentals and sales deposits received		<b>14,286</b>	14,193
Unclaimed dividends		<b>273</b>	273
Trade creditors	10	<b>50,761</b>	63,605
Other creditors and accruals		<b>77,915</b>	39,734
Amounts due to customers for contract work		<b>920</b>	817
Taxation		<b>10,557</b>	10,137
Amounts due to minority shareholders of subsidiaries		<b>5,901</b>	7,358
Bank borrowings – due within one year		<b>73,657</b>	73,783
Other borrowings		<b>196,899</b>	196,151
Obligations under finance lease		<b>–</b>	62
		<b>451,028</b>	427,595
Net current liabilities		<b>(69,220)</b>	(31,139)
		<b>286,268</b>	384,104



		<b>30 September 2001 (Unaudited) HK\$'000</b>	31 March 2001 (Audited) HK\$'000
	<i>Notes</i>		
Capital and reserves			
Share capital		<b>14,506</b>	14,506
Reserves	12	<b>206,919</b>	303,196
		<u><b>221,425</b></u>	<u>317,702</u>
Minority interests		<u><b>49,310</b></u>	<u>48,866</u>
Non-current liabilities			
Bank borrowings – due after one year		<b>11,865</b>	13,868
Deferred tax liabilities		<b>2,587</b>	2,587
Amount due to an investee company		<b>1,081</b>	1,081
		<u><b>15,533</b></u>	<u>17,536</u>
		<u><b>286,268</b></u>	<u>384,104</u>



**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**

*For the six months ended 30 September 2001*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2001</b>	<b>2000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net (loss) profit for the period and total recognised gains and losses	<b>(96,277)</b>	16,946
Goodwill reserve arising from increase in interest in an associate	<u>—</u>	<u>(1,391)</u>
	<b><u>(96,277)</u></b>	<b><u>15,555</u></b>
Prior period adjustments arising from the effects of changes in accounting policies (see Notes 2 and 3)		
–Decrease in retained profits	<b>(34,694)</b>	(118,945)
–Decrease in goodwill reserve	<b>34,694</b>	118,945
	<u>—</u>	<u>—</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 September 2001

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2001</b>	2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<b>14,432</b>	(124,449)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	<b>258</b>	1,418
Interest paid	<b>(13,832)</b>	(13,879)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	<b>(13,574)</b>	(12,461)
TAXATION		
Hong Kong Profits Tax paid	<b>(160)</b>	(3)
Hong Kong Profits Tax refunded	-	95
Overseas tax paid	<b>(156)</b>	(97)
TAX PAID	<b>(316)</b>	(5)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	<b>(1,333)</b>	(2,112)
Proceeds on disposal of property, plant and equipment	<b>2,215</b>	24
Release of bank deposits pledged	-	6,198
Expenditure on properties under development held for sale	<b>(1,353)</b>	(3,556)
Expenditure on factory under construction	<b>(2,262)</b>	(852)
Increase in investment in securities	-	(143)
Advance to minority shareholders of subsidiaries	<b>1</b>	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(2,732)</b>	(441)
NET CASH OUTFLOW BEFORE FINANCING	<b>(2,190)</b>	(137,356)
FINANCING		
Issue of shares	-	110,005
Placement expenses	-	(3,487)
Advances from minority shareholders of subsidiaries	<b>(1,457)</b>	-
New bank loans obtained	<b>11,700</b>	21,551
Repayment of bank loans	<b>(11,997)</b>	(23,858)
Repayment of obligations under finance lease	<b>(62)</b>	-
New other loans obtained	<b>2,816</b>	-
Repayment of other loans	<b>(4,070)</b>	-
NET CASH (OUTFLOW) INFLOW FROM FINANCING	<b>(3,070)</b>	104,211
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(5,260)</b>	(33,145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>20,737</b>	49,981
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>101</b>	35
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>15,578</b>	16,871



	Six months ended 30 September 2001 (Unaudited) HK\$'000		2000 (Unaudited) HK\$'000
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	19,404		16,871
Bank overdrafts	(3,826)		–
	<u>15,578</u>		<u>16,871</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2001

### 1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

In preparing the condensed financial statements, the Directors have given careful consideration to the future liquidity of the Group. The Group fails to repay certain part of its convertible loan of HK\$92,302,000, which was included under other borrowings. Accordingly, such convertible loan has become technically repayable on demand and has been reclassified as a current liability. Also, the Group is in breach of a covenant in respect of certain banking facilities; the amount utilised was HK\$32,807,000 as at 30 September 2001.

Against this background, the Group is currently negotiating with the lender of the convertible loan and the bank to restructure these borrowings. Provided that such negotiations can be successfully completed, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed financial statements have been prepared on a going concern basis.

### 2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31 March 2001, except as disclosed below.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following revised accounting policy.

#### Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 Segment Reporting. Segment disclosures for the six months ended 30 September 2000 have been amended so that they are presented on a consistent basis.

#### Goodwill

In the current period, the Group had adopted Statement of Standard Accounting Practice 30 “Business Combinations” (“SSAP 30”) and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiaries and associates and the date of adoption of SSAP 30 have been recognised retrospectively (see Note 3). Negative goodwill arising on acquisitions prior to 1 April 2001 will be credited to the income statement at the time of disposal of the relevant subsidiaries and associates.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised over its estimated useful life, i.e. over periods ranging from 5 to 20 years, as appropriate. Negative goodwill arising on acquisitions after 1 April 2001 is presented as a deduction from assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted.



### 3. Prior period adjustments

The effect of the adoption of SSAP 30 described in Note 2 is summarised below:-

	Retained profits <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2000			
As originally stated	281,352	(118,945)	162,407
Retrospective recognition of impairment of goodwill held in reserves	<u>(118,945)</u>	<u>118,945</u>	<u>–</u>
As restated	<u>162,407</u>	<u>–</u>	<u>162,407</u>

The effect of these changes in accounting policies on the results for the current and prior periods is as follows:-

	6 months ended 30 September 2001 <i>HK\$'000</i>	12 months ended 31 March 2001 <i>HK\$'000</i>	6 months ended 30 September 2000 <i>HK\$'000</i>
Impairment of goodwill	<u>–</u>	<u>34,694</u>	<u>–</u>

### 4. Segment information

The Group's turnover and contribution to (loss) profit from operations, analysed by business and geographical segment are as follows:-

	Six months ended 30 September			
	2001 (Unaudited)	Contribution to loss from operations <i>HK\$'000</i>	2000 (Unaudited)	Contribution to profit from operations <i>HK\$'000</i>
	Turnover <i>HK\$'000</i>		Turnover <i>HK\$'000</i>	
By business segments:-				
Trading of ceramic tiles	123,074	(6,188)	154,880	17,355
Trading of bathroom accessories	16,051	750	13,059	466
Trading of marketable securities	–	(3,418)	294,314	(2,337)
Trading of derivatives	–	–	6,971	6,971
Money lending	145	(2,067)	7,325	6,406
	<u>139,270</u>	<u>(10,923)</u>	<u>476,549</u>	<u>28,861</u>
Inter-segment sales:-				
Trading of ceramic tiles	52,237		72,993	
Trading of bathroom accessories	10,714		11,558	
	<u>62,951</u>		<u>84,551</u>	
	202,221		561,100	
Eliminations	<u>(62,951)</u>		<u>(84,551)</u>	
Consolidated turnover	<u>139,270</u>		<u>476,549</u>	
(Loss) profit from operations		<u>(10,923)</u>		<u>28,861</u>





4. Segment information (Continued)

	Six months ended 30 September		Six months ended 30 September	
	2001 (Unaudited)	Contribution to loss from operations	2000 (Unaudited)	Contribution to profit from operations
	Turnover HK\$'000	HK\$'000	Turnover HK\$'000	HK\$'000
By geographical segments:-				
External sales:-				
Hong Kong	79,678	(14,957)	403,407	7,848
Other regions in the People's Republic of China ("PRC")	43,968	3,371	73,142	21,013
United States of America	15,624	663	-	-
	<u>139,270</u>	<u>(10,923)</u>	<u>476,549</u>	<u>28,861</u>
Inter-segment sales:-				
Hong Kong	51,067		76,554	
PRC	11,884		7,997	
	<u>62,951</u>		<u>84,551</u>	
	<u>202,221</u>		<u>561,100</u>	
Eliminations	(62,951)		(84,551)	
Consolidated turnover	<u>139,270</u>		<u>476,549</u>	
(Loss) profit from operations		<u>(10,923)</u>		<u>28,861</u>

5. (Loss) profit before taxation

	Six months ended 30 September	
	2001 (Unaudited)	2000 (Unaudited)
	HK\$'000	HK\$'000
(Loss) profit before taxation has been arrived at after charging:-		
Depreciation	11,821	15,408
Interest on borrowings	<u>13,100</u>	<u>13,857</u>

6. Taxation

	Six months ended 30 September	
	2001 (Unaudited)	2000 (Unaudited)
	HK\$'000	HK\$'000
The charge comprises:-		
The Company and subsidiaries		
Income tax for the period		
Other regions in the PRC	576	1,760
Overseas	-	61
Prior periods		
Hong Kong	-	1
Deferred taxation	-	(26)
	<u>576</u>	<u>1,796</u>
Share of taxation of associates	(423)	19
	<u>153</u>	<u>1,815</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the period. PRC income tax has been provided for at the applicable rates on the estimated assessable profits of the PRC subsidiaries. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.



7. **(Loss) earnings per share**

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>(Loss) earnings</b>		
Net (loss) profit for the period for the purpose of basic (loss) earnings per share	<u>(96,277)</u>	16,946
Effect of dilutive earnings per share of an associate		<u>(86)</u>
(Loss) profit for the period for the purpose of diluted earnings per share		<u>16,860</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>1,450,612,577</u>	1,101,941,365
Effect of dilutive potential ordinary shares Warrants		<u>166,520,072</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>1,268,461,437</u>

No diluted loss per share for the period ended 30 September 2001 has been presented as the exercise of the warrants and the conversion of the outstanding convertible loan would result in a reduction in loss per share.

Earnings per share for the period ended 30 September 2000 has been adjusted for the share consolidation on 26 February 2001.

8. **Movements in property, plant and equipment**

During the period, the Group acquired property, plant and equipment at cost of approximately HK\$1,333,000.

In addition, the Group disposed of property, plant and equipment with aggregate net book value of approximately HK\$3,267,000 for proceeds of HK\$2,215,000, resulting in a loss on disposal of approximately HK\$1,052,000.

9. **Trade debtors**

The Group does not define a fixed credit policy.

The following is an aged analysis of trade debtors at the reporting date:–

	<b>30 September</b>		31 March
	<b>2001</b>		2001
	<b>(Unaudited)</b>		(Audited)
	<b>HK\$'000</b>		HK\$'000
Within 60 days	<b>24,525</b>		14,789
61–90 days	<b>8,244</b>		9,709
Over 90 days	<b>82,990</b>		71,173
	<u><b>115,759</b></u>		<u>95,671</u>

10. **Trade creditors**

The following is an aged analysis of trade creditors at the reporting date:–

	<b>30 September</b>		31 March
	<b>2001</b>		2001
	<b>(Unaudited)</b>		(Audited)
	<b>HK\$'000</b>		HK\$'000
Within 60 days	<b>34,862</b>		39,351
61–90 days	<b>2,211</b>		4,503
Over 90 days	<b>13,688</b>		19,751
	<u><b>50,761</b></u>		<u>63,605</u>



**11. Provision for an onerous contract**

The amount represented a provision for a put option granted to a third party to require the Company to purchase certain shares in Skynet Limited, an associate of the Company.

**12. Reserves**

	Goodwill reserve HK\$'000	Negative goodwill HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital redemption reserve HK\$'000	Enterprises expansion reserve HK\$'000	Revenue reserve HK\$'000	Contributed surplus HK\$'000	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2000										
- as originally stated	(118,945)	33,545	28,100	694,583	572	199	199	-	281,352	919,605
- prior period adjustment (Note 3)	118,945	-	-	-	-	-	-	-	(118,945)	-
- as restated	-	33,545	28,100	694,583	572	199	199	-	162,407	919,605
Consolidation of shares from HK\$0.01 to HK\$0.1 each	-	-	-	-	-	-	-	130,555	-	130,555
Premium arising from issue of shares under placing	-	-	12,000	-	-	-	-	-	-	12,000
Placement expenses	-	-	(136)	-	-	-	-	-	-	(136)
Rights issue of shares	-	-	93,411	-	-	-	-	-	-	93,411
Rights issue expenses	-	-	(2,913)	-	-	-	-	-	-	(2,913)
Bonus issue	-	-	(83,032)	-	-	-	-	-	-	(83,032)
Bonus issue expenses	-	-	(803)	-	-	-	-	-	-	(803)
Exercise of warrants	-	-	513	-	-	-	-	-	-	513
Goodwill reserve arising from increase in interest in an associate	(255)	-	-	-	-	-	-	-	-	(255)
Goodwill reserve arising from acquisition of an associate	(34,439)	-	-	-	-	-	-	-	-	(34,439)
Loss for the year	-	-	-	-	-	-	-	-	(731,310)	(731,310)
At 31 March 2001	(34,694)	33,545	47,140	694,583	572	199	199	130,555	(568,903)	303,196
- prior period adjustment (Note 3)	34,694	-	-	-	-	-	-	-	(34,694)	-
- as restated	-	33,545	47,140	694,583	572	199	199	130,555	(603,597)	303,196
Loss for the period	-	-	-	-	-	-	-	-	(96,277)	(96,277)
At 30 September 2001	-	33,545	47,140	694,583	572	199	199	130,555	(699,874)	206,919

**13. Contingent liabilities**

	<b>30 September 2001 (Unaudited) HK\$'000</b>	<b>31 March 2001 (Audited) HK\$'000</b>
Outstanding performance bonds in respect of rental of retail shop	527	527
Corporate guarantee given to bankers in respect of banking facilities utilised by an associate	14,678	26,783
Corporate guarantee in lieu of utility deposit	540	-
Put option granted to a third party to require the Company to purchase certain shares in Skynet Limited (see Note 11)	-	23,400

**14. Capital commitments**

	<b>30 September 2001 (Unaudited) HK\$'000</b>	<b>31 March 2001 (Audited) HK\$'000</b>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	-	203



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**Deloitte  
Touche  
Tohmatsu**

### **INDEPENDENT REVIEW REPORT**

### **TO THE BOARD OF DIRECTORS OF COMPANION BUILDING MATERIAL INTERNATIONAL HOLDINGS LIMITED**

#### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 1 to 10.

#### **Directors' responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

#### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

#### **Fundamental uncertainty relating to the going concern basis**

We have considered the adequacy of the disclosures in note 1 to the condensed financial statements which explains that the Group fails to repay certain part of its convertible loan of HK\$92,302,000. Accordingly, such convertible loan has become technically repayable on demand and has been reclassified as a current liability. Also, the Group is in breach of a covenant in respect of certain banking facilities; the amount utilised was HK\$32,807,000 as at 30 September 2001.



Against this background, the Group is currently negotiating with the lender of the convertible loan and the bank to restructure these borrowings. Provided that such negotiations can be successfully completed, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The condensed financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The condensed financial statements do not include any adjustments that would result from the failure to obtain such funding. We consider that the fundamental uncertainty is adequately disclosed in the condensed financial statements.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2001.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

21 December 2001



## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2001 (2000: HK\$Nil per share).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review**

For the six months ended 30 September 2001, the Group recorded a consolidated turnover of HK\$139.3 million, representing a drop of 70.8% from the corresponding period last year, and a net loss of HK\$96.3 million.

During the period, the Group's ceramic tile business continued to operate under a difficult business environment in light of the sluggish local property market. The global economic slowdown dampened local economic conditions, and despite the consecutive cuts in interest rate, consumer and investor confidence has not revived and consumers remained prudent in their spending. Demand for new residential units and refurbishment of existing buildings remained low, which intensified competition in the construction industry and exerted severe pressure on sales price and profit margin of the Group. Turnover from trading of ceramic tiles reduced by 20.5% to HK\$123.1 million. However, in spite of these unfavourable market conditions, the sanitary business achieved a stable growth. Turnover from trading of bathroom accessories increased by 22.9% to HK\$16.1 million.

The Group's sales of ceramic tiles to Home Depot, a reputable home improvement retailer in the United States, also made good progress. Sales to the United States market rose to HK\$15.6 million. The Group will continue its effort to expand its revenue base in the United States.

Share of loss of associates for the period amounted to HK\$50.5 million, a large portion of which could be attributed to the loss of Skynet (International Group) Holdings Limited, a 43.64% associate of the Company that is engaged principally in the wholesale and installation of marble and granite products and has made substantial investments in the Internet industry. The results of Skynet (International Group) Holdings Limited were affected by the sluggish property market and the depressed Internet industry.

The Group made a provision for an onerous contract of HK\$23.4 million, which was related to a put option granted to a third party to require the Company to purchase certain shares in Skynet Limited, an associate of the Company.

During the period, the Group implemented various measures to enhance cost competitiveness including divesting the non-core money lending business and reducing workforce. The Group also actively explored new suppliers for its products to obtain more competitive purchase prices. The Group will continue its efforts in tightening the control on operating costs, providing quality services to customers and capitalising on its strength in existing business.



### **Liquidity and financial resources**

As at 30 September 2001, the Group had net current liabilities of HK\$69.2 million (31 March 2001: HK\$31.1 million) and a current ratio of 0.8 (31 March 2001: 0.9). Cash, bank balances and time deposits as at 30 September 2001 were HK\$19.4 million (31 March 2001: HK\$23.9 million). Gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' funds was 2.3 (31 March 2001: 1.6).

Borrowings as at 30 September 2001 amounted to HK\$282.4 million (31 March 2001: HK\$283.8 million), of which HK\$270.5 million was due within one year from the balance sheet date and HK\$11.9 million was due after one year. All these borrowings were interest bearing, of which HK\$203.8 million bore fixed interest rates ranging from 6.417% to 9.8% and HK\$78.6 million bore floating interest rates. As at 30 September 2001, the Group had bank overdraft of HK\$3.8 million (31 March 2001: HK\$3.1 million). Borrowings were mainly denominated in Renminbi, United States dollars and Hong Kong dollars while cash and cash equivalents were mainly held in Hong Kong dollars and Renminbi. Exchange rate fluctuations had no material impact on the Group during the period. The Group has utilised foreign exchange contracts and options to hedge against the exchange rate risk for its purchases.

The Group fails to repay certain part of a convertible loan, resulting in the whole convertible loan of HK\$92.3 million technically repayable on demand. The Group is also in breach of a covenant in respect of certain banking facilities. The amount of such banking facilities utilised was HK\$32.8 million as at 30 September 2001. The Group is currently negotiating with the lender of the convertible loan and the bank to restructure these borrowings. Provided that such negotiations can be successfully completed, the Group expects that it will be able to meet in full its financial obligations as they fall due in the foreseeable future.

### **Pledge of assets**

As at 30 September 2001, the Group pledged certain land and buildings, motor vehicles, plant and machinery, and shares of certain subsidiaries with an aggregate carrying value of HK\$220.8 million and 1,964,446,735 shares of Skynet (International Group) Holdings Limited (31 March 2001: HK\$163.5 million) to secure certain banking facilities and borrowings to the Group.

### **Contingent liabilities**

As at 30 September 2001, the Group's contingent liabilities were HK\$15.7 million (31 March 2001: HK\$50.7 million), representing corporate guarantee given to bankers in respect of banking facilities utilised by an associate of HK\$14.7 million, outstanding performance bonds in respect of retail shop rental of HK\$0.5 million and corporate guarantee in lieu of utility deposit of HK\$0.5 million.

### **Employees and remuneration policies**

The Group had approximately 650 employees as at 30 September 2001. The Group's remuneration policies are in line with prevailing market practices and formulated on the basis of performance and experience of the employees. Training is also provided to improve the calibre of the staff.

The Company maintains a share option scheme and no share options were granted or exercised during the period.



## **Prospects**

The September 11 terrorist attacks in the United States have accelerated the downturn of the local economy. Local unemployment rate has been rising and reached 5.8% for the period from September to November 2001. The implementation of the ten-month moratorium on the sale of Home Ownership Scheme flats and the subsequent ceiling on sales at not more than 9,000 flats a year up to 2005-06 will reduce the development projects to be undertaken in the short run. Recovery is not expected in the short term and would highly depend on the revival of the United States economy. In view of the uncertain outlook for the local economy, the Group will continue to maintain its focus on markets while remaining committed to controlling costs and enhancing efficiency.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND WARRANTS**

At 30 September 2001, the following Directors, chief executives of the Company and their respective associates had interests in the share capital and warrants of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):-

<b>Name of Director</b>	<b>Number of shares and warrants of the Company held Personal interest</b>
Siu York Chee	
– shares	7,488,000
– warrants (exercisable at any time from 14 August 2000 to 13 August 2002) ("2002 Warrants")	14,976,000
Li Sau Lin	
– shares	221,529
– 2002 Warrants	443,059

Apart from the above, no interests were held or deemed or taken (under the SDI Ordinance) to be held by any Directors or chief executives of the Company or their respective associates in any share capital of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by directors of listed companies or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein.

Save as disclosed above, at no time during the period was the Company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.





## **SUBSTANTIAL SHAREHOLDERS**

At 30 September 2001, the register of shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following entities had an interest of 10% or more in the issued share capital of the Company:—

<b>Name</b>	<b>Number of shares held</b>	<b>%</b>
Manful Star Group Limited (“Manful”)	288,324,133	19.88
Lo Lin Shing, Simon	288,324,133 ( <i>Note</i> )	19.88

*Note:* Manful is wholly owned by Mr. Lo Lin Shing, Simon. Mr. Lo is deemed to be interested in the shares held by Manful.

Save as disclosed above, the Company has not been notified of any other interest representing 10% or more of the Company’s issued share capital at 30 September 2001.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

There was no purchase, redemption or sale of shares and warrants of the Company by the Company or any of its subsidiaries during the period.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of unaudited interim financial statements for the six months ended 30 September 2001.

## **CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30 September 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules apart from the fact that the non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the Company’s Bye-laws.

By Order of the Board  
**Siu York Chee**  
*Chairman*

Hong Kong, 21 December 2001