

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with the requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st March, 2001, except that the Group has changed certain of its accounting policies following the adoption of new and revised SSAPs which became effective for the current accounting period.

The Group has adopted the transitional provision of SSAP 30 "Business Combinations" that goodwill/negative goodwill previously eliminated against/credited to reserves need not be restated and will be charged/credited to the income statement at the time of disposal of the subsidiary or associate or at such time the goodwill is determined to be impaired. Goodwill arising on acquisition after 1st April, 2001 is capitalised and amortised on the straight-line basis over its estimated useful life. Any impairment of goodwill will be recognised as an expense in the income statement immediately. Negative goodwill arising on acquisition after 1st April, 2001 is presented as a deduction from assets and recognised as income based on an analysis of the circumstances from which the negative goodwill resulted.

The adoption of the new and revised SSAPs has no significant effect to the results of the Group in the current or prior period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**2. Segmental information***By operating activities*

| | Turnover | | Profit from operations | |
|--|-------------------------------------|----------------|-------------------------------------|---------------|
| | Six months ended 30th September, | | Six months ended 30th September, | |
| | 2001 | 2000 | 2001 | 2000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Building construction, foundation and piling construction | 485,890 | 212,477 | 13,767 | 4,816 |
| Garment manufacturing and trading | 327,844 | 440,801 | 14,461 | 35,353 |
| Wholesaling of mechanical products and electrical appliances and provision of maintenance services* | 57,777 | 43,339 | 977 | 780 |
| Others | — | 3,500 | 6,867 | 1,204 |
| | <u>871,511</u> | <u>700,117</u> | <u>36,072</u> | <u>42,153</u> |

By geographical location

| | Turnover | | Profit from operations | |
|---------------|-------------------------------------|----------------|-------------------------------------|---------------|
| | Six months ended 30th September, | | Six months ended 30th September, | |
| | 2001 | 2000 | 2001 | 2000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 555,153 | 291,390 | 21,777 | 12,376 |
| North America | 161,588 | 225,423 | 7,591 | 15,086 |
| Europe | 141,403 | 171,594 | 5,790 | 13,766 |
| Others | 13,367 | 11,710 | 914 | 925 |
| | <u>871,511</u> | <u>700,117</u> | <u>36,072</u> | <u>42,153</u> |

* The amounts represent the results of Jackson Merchantile Trading Company Limited ("Jackson Merchantile") and its subsidiaries up to the effective date of disposal on 3rd September, 2001.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(Continued)***3. Share of results of associates**

Included in the share of the results of associates in prior period were profits arising from disposal of interests in subsidiaries and a jointly-controlled entity by an associate. The Group's proportionate share of the exceptional profits amounted to HK\$88,726,000.

4. Profit/(loss) before taxation

The profit/(loss) before taxation is arrived at after charging and (crediting):

| | Six months ended 30th September, | |
|---|---|--------------------|
| | 2001 | 2000 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | | |
| – Owned assets | 17,880 | 10,651 |
| – Assets held under hire purchase contracts | 2,405 | 2,088 |
| | 20,285 | 12,739 |
| Less: Amount capitalised in contract costs | 2,303 | 918 |
| | 17,982 | 11,821 |
| Staff costs (including directors' emoluments) | 86,837 | 67,580 |
| Less: Amount capitalised in contract costs | 26,198 | 12,642 |
| | 60,639 | 54,938 |
| Amortisation of permanent export quota entitlements | 1,329 | 1,329 |
| Loss on disposal of investments in securities | 98 | 3,182 |
| Unrealised loss on investments in securities | 839 | 305 |
| Accretion of discount on acquisition of debt securities | – | (1,444) |
| Interest income from debt securities | (6,494) | (2,777) |
| Bank interest income | (1,289) | (1,216) |
| Other interest income | (1,096) | (1,730) |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**5. Taxation charge**

| | Six months ended | |
|---------------------------------|-------------------------|-------------|
| | 30th September, | |
| | 2001 | 2000 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Hong Kong | | |
| Provision for the period | 3,064 | 3,086 |
| Underprovision in prior periods | – | 171 |
| Overseas | 4 | 9 |
| Deferred taxation | 800 | – |
| | <hr/> | <hr/> |
| | 3,868 | 3,266 |
| Share of taxation of associates | 743 | 930 |
| | <hr/> | <hr/> |
| | 4,611 | 4,196 |
| | <hr/> <hr/> | <hr/> <hr/> |

The Group companies provide for taxation on the basis of their income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Hong Kong profits tax is calculated at 16% (2000: 16%) on the estimated assessable profits of the period. Overseas taxation is provided on the profits of overseas subsidiaries in accordance with the tax laws of the countries in which the subsidiaries operate.

6. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net loss for the period of approximately HK\$10,797,000 (2000: net profit of HK\$108,499,000) and on 551,368,153 (2000: 551,368,153) shares in issue during the period.

No diluted loss per share for the current period is presented as the exercise of the outstanding options and convertible guaranteed bonds of the associates of the Group would only serve to reduce the basic loss per share.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**6. Earnings/(loss) per share** (Continued)

The calculation of diluted earnings per share for the six months ended 30th September, 2000 was based on the following data:

| | |
|--|-------------------------|
| | (Unaudited) HK\$'000 |
| <i>Earnings</i> | |
| Earnings for the purpose of basic earnings per share | 108,499 |
| Adjustment to earnings based on the dilutive share options of certain associates of the Company | (155) |
| | <u>108,344</u> |
| <i>Number of shares</i> | |
| Number of shares in issue during the six months ended 30th September, 2000 for the purpose of calculating diluted earnings per share | <u>551,368,153</u> |

7. Property, plant and equipment

During the current interim period, the Group acquired property, plant and equipment at a cost of approximately HK\$238,774,000, of which HK\$222,735,000 was attributable to the acquisition of subsidiaries. The Group disposed property, plant and equipment with a net book value of approximately HK\$10,683,000, of which HK\$10,586,000 was attributable to the disposal of subsidiaries.

8. Interests in associates

Included in interests in associates are held-to-maturity debt securities of HK\$141,000,000 of the 10% convertible guaranteed bonds due April, 2003 issued by a wholly-owned subsidiary of Hon Kwok Land Investment Company, Limited ("Hon Kwok"). Holders of the bonds have the right to convert the bonds into equity shares of Hon Kwok at a conversion price, subject to adjustment in certain events, of HK\$0.40 per share.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**9. Debtors and prepayments**

Included in debtors and prepayments are trade debtors of HK\$210,175,000 (as at 31st March, 2001: HK\$87,479,000). The ageing analysis of trade debtors is as follows:

| | As at 30th September, 2001 (Unaudited) HK\$'000 | As at 31st March, 2001 (Audited) HK\$'000 |
|--------------------|--|--|
| Current to 30 days | 156,391 | 59,405 |
| 31 to 60 days | 26,069 | 16,066 |
| 61 to 90 days | 1,340 | 5,000 |
| Over 90 days | 26,375 | 7,008 |
| | <u>210,175</u> | <u>87,479</u> |
| Total | <u><u>210,175</u></u> | <u><u>87,479</u></u> |

The Group allows an average credit period of 30 days to its trade customers.

10. Creditors and accrued charges

Included in creditors and accrued charges are trade creditors of HK\$101,506,000 (as at 31st March, 2001: HK\$42,531,000). The ageing analysis of trade creditors is as follows:

| | As at 30th September, 2001 (Unaudited) HK\$'000 | As at 31st March, 2001 (Audited) HK\$'000 |
|--------------------|--|--|
| Current to 30 days | 59,803 | 32,899 |
| 31 to 60 days | 31,420 | 6,759 |
| 61 to 90 days | 4,963 | 896 |
| Over 90 days | 5,320 | 1,977 |
| | <u>101,506</u> | <u>42,531</u> |
| Total | <u><u>101,506</u></u> | <u><u>42,531</u></u> |

11. Share capital

There were no movements in the authorised, issued and fully paid share capital of the Company in the current interim period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**12. Reserves**

| (Unaudited) | Share premium <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Capital/ (goodwill) reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|--|--|--|--------------------------|
| At 1st April, 2001 | 267,569 | (45,545) | (14,668) | 781,633 | 988,989 |
| Released on disposals of subsidiaries | – | – | (488) | – | (488) |
| Share of reserves of associates attributable to the Group | – | (47) | 2,662 | – | 2,615 |
| Exchange differences arising on translation of financial statements denominated in foreign currencies | – | 1,504 | – | – | 1,504 |
| Net loss for the period | – | – | – | (10,797) | (10,797) |
| At 30th September, 2001 | <u>267,569</u> | <u>(44,088)</u> | <u>(12,494)</u> | <u>770,836</u> | <u>981,823</u> |

13. Acquisition and disposal of subsidiaries and associates

(a) Acquisition of subsidiaries

The subsidiaries acquired during the current interim period have the following effect on the Group's net assets:

| | |
|-------------------------|--------------------------------|
| | (Unaudited) <i>HK\$'000</i> |
| Net assets acquired | <u>176,677</u> |
| Satisfied by: | |
| Cash consideration | 88,000 |
| Interests in associates | <u>88,677</u> |
| | <u>176,677</u> |

Analysis of net outflow of cash and cash equivalent in respect of the acquisition:

| | |
|--|----------------|
| Cash consideration | 88,000 |
| Bank overdrafts (net of bank balances and cash) acquired | <u>41,802</u> |
| | <u>129,802</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**13. Acquisition and disposal of subsidiaries and associates** (Continued)

(b) Disposal of subsidiaries and associates

The effect on the Group's net assets on the disposal of subsidiaries and associates during the current or the prior interim period is as follows:

| | Six months ended 30th September, | |
|--|---|--------------------|
| | 2001 | 2000 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Net assets disposed of | 10,759 | 273,165 |
| Minority interests | (1,007) | (81,313) |
| Reserves attributable to the Group and released upon disposal | (488) | 29,577 |
| | 9,264 | 221,429 |
| Gain on disposal of subsidiaries | 605 | 94,878 |
| Gain on disposal of associates | – | 1,017 |
| | 9,869 | 317,324 |
| | 9,869 | 317,324 |
| Analysis of net inflow of cash and cash equivalents in respect of the disposals: | | |
| Cash consideration | 9,869 | 317,324 |
| Bank overdrafts (net of bank balances and cash) disposed of | 8,000 | 33,154 |
| | 17,869 | 350,478 |

14. Related party transactions

(a) Set out below are the significant transactions between the Group and related parties during the period:

| | Six months ended 30th September, | |
|--|---|--------------------|
| | 2001 | 2000 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Construction work carried out for an associate | 27,284 | 38,771 |
| Interest received from a jointly-controlled entity | 672 | 968 |
| Management fee income received from associates | – | 3,500 |

In the opinion of the Directors, the construction work for the associate was carried out at prices determined on the cost plus a percentage mark-up basis, and the other transactions were carried out at market prices or at market rates.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(Continued)***14. Related party transactions** *(Continued)*

- (b) The Company was allotted a principal sum of HK\$141 million of the 10% convertible guaranteed bonds issued by a wholly-owned subsidiary of Hon Kwok on 18th April, 2001. The subscription monies were satisfied by Hon Kwok repurchasing the Company's holding of the 5.3% convertible guaranteed bonds issued by a wholly-owned subsidiary of Hon Kwok valued at approximately HK\$51 million and cash payment of approximately HK\$90 million.
- (c) On 3rd September, 2001, the Company disposed its entire interest in Jackson Mercantile, a then wholly-owned subsidiary of the Company, to Chinney Alliance Group Limited ("Chinney Alliance") at a cash consideration of approximately HK\$9,869,000. The consideration was arrived at after arm's length negotiation and determined by reference to the unaudited pro-forma consolidated net tangible assets of Jackson Mercantile and its subsidiaries of HK\$9,869,000 as at 30th June, 2001.
- (d) The amounts due from/to associates and the amounts due to jointly-controlled entities are unsecured, non-interest bearing and are repayable on demand.

The amounts due from jointly-controlled entities are unsecured, bear interest at the prevailing market rates and are repayable on demand.

15. Review of interim financial statements

The interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.