



**I-WOOD INTERNATIONAL HOLDINGS LIMITED**

**一木國際控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**SECOND INTERIM REPORT 2001/2002**

## SECOND INTERIM RESULTS

The directors (the “Directors”) of I-Wood International Holdings Limited (the “Company”) has announced the change of the Company’s financial year end date from 31 March to 30 June and thereby now announces the second unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the twelve months ended 31 March 2002 together with comparative figures for the corresponding period of the preceding financial period as follows:

### Consolidated Income Statement

		<b>Twelve months ended</b>	
		<b>31 March</b>	
	<i>Notes</i>	<b>2002</b>	2001
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b><i>(unaudited)</i></b>	<i>(audited)</i>
Turnover	4	<b>135,672</b>	193,113
Cost of sales		<u><b>(111,659)</b></u>	<u>(125,134)</u>
Gross profit		<b>24,013</b>	67,979
Other income		<b>1,367</b>	423
Distribution and selling expenses		<b>(20,374)</b>	(7,458)
General and administrative expenses		<u><b>(11,553)</b></u>	<u>(11,487)</u>
Profit/(loss) from operations	5	<b>(6,547)</b>	49,457
Finance costs	6	<b>(1,353)</b>	(1,675)
Gain on disposal of subsidiary		<u><b>772</b></u>	<u>—</u>
Profit/(loss) before taxation		<b>(7,128)</b>	47,782
Taxation	7	<u><b>(397)</b></u>	<u>(6,063)</u>
Profit/(loss) attributable to shareholders	4	<u><b>(7,525)</b></u>	<u>41,719</u>
Dividend	8	<u><b>—</b></u>	<u>(20,098)</u>
Earnings/(losses) per share	9		
— Basic		<u><b>(2.45) cents</b></u>	<u>18.0 cents</u>
— Diluted		<u><b>N/A</b></u>	<u>18.0 cents</u>

## Consolidated Balance Sheet

		As at <b>31 March 2002</b> <i>HK\$'000</i> <i>(unaudited)</i>	As at 31 March 2001 <i>HK\$'000</i> <i>(audited)</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<u>58,561</u>	<u>51,879</u>
<b>CURRENT ASSETS</b>			
Inventories		21,421	21,668
Trade receivables	10	10,517	32,076
Prepayments and other receivables		87,808	2,027
Other investments		—	1,001
Cash and bank balances		<u>33,219</u>	<u>31,126</u>
		<u>152,965</u>	<u>87,898</u>
<b>CURRENT LIABILITIES</b>			
Accruals and other payables		(19,978)	(7,866)
Trade payables	11	(12,646)	(8,096)
Taxation payable		(3,062)	(17,368)
Short-term bank loans		<u>(14,439)</u>	<u>(6,542)</u>
		<u>(50,125)</u>	<u>(39,872)</u>
Net current assets		<u>102,840</u>	<u>48,026</u>
		<u>161,401</u>	<u>99,905</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	39,922	25,290
Reserves	13	69,114	30,585
Retained profit		<u>36,365</u>	<u>44,030</u>
		<u>145,401</u>	<u>99,905</u>
<b>NON-CURRENT LIABILITY</b>			
Convertible bond	12	<u>16,000</u>	<u>—</u>
		<u>161,401</u>	<u>99,905</u>

## Condensed Consolidated Cash Flow Statement

	Twelve months ended	
	31 March	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Net cash (outflow) inflow from operating activities	(69,582)	39,155
Net cash outflow from returns on investments and servicing of finance	(221)	(21,350)
Mainland China income tax paid	(210)	—
Net cash (outflow) inflow from investing activities	(8,792)	1,797
Net cash inflow from financing	<u>79,897</u>	<u>7,844</u>
Increase in cash and cash equivalents	1,092	27,446
Cash and Cash Equivalents		
Beginning of period	<u>32,127</u>	<u>4,681</u>
End of period	<u><u>33,219</u></u>	<u><u>32,127</u></u>

## Consolidated Statement of Recognised Gains and Losses

	Twelve months ended	
	31 March	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Surplus on revaluation of properties	<u>397</u>	<u>7,936</u>
Net gains not recognized in the consolidated income statement	397	7,936
Profit/(Loss) attributable to shareholders	<u>(7,525)</u>	<u>41,719</u>
Total recognized gains/(losses)	<u><u>(7,128)</u></u>	<u><u>49,655</u></u>

Notes:

#### 1. Basis of presentation and comparative figures

The Company was incorporated in Bermuda on 8 August 2000. Pursuant to a group reorganization in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of its subsidiaries on 28 September 2000. The shares of the Company commenced to list on the Stock Exchange on 23 October 2000. The Group resulting from the group reorganization has been treated as a continuing entity. Accordingly, the comparative figures for the preceding financial period have been prepared on the basis as if the Company had been the holding company of the Group during the relevant period.

#### 2. Principal accounting policies

The same principal accounting policies and methods of computation are followed in these interim financial statements for the twelve months ended 31 March 2002 as compared with the most recently published annual financial statements for the year ended 31 March 2001. These interim financial statements comply with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

#### 3. Related party transactions

During the period from 1 April 2001 to 30 November 2001, the Group entered into a tenancy agreement with Joy Glory Development Limited ("JGDL"), a company beneficially owned by Mr. Yau Kwai Tun, a director and a substantial shareholder of the Company, for rental of office premises. Rental charged by JGDL amounted to HK\$328,000 (2001: HK\$246,000) for the 12 months ended 31 March 2002.

In the opinion of the Directors, the above related party transaction was conducted in the usual course of business and on normal commercial terms.

#### 4. Turnover and segment information

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, development, manufacture and sale of a wide range of wooden furniture products, including desks, tables, chairs, cupboards, beds, sofas, cabinets and garden accessories.

All of the Group's turnover and profit attributable to shareholders were derived from the manufacture and sale of furniture products for the 12 months ended 31 March 2002.

The Group's turnover by geographical area of principal markets based on the destination of delivery of the Group's products for the twelve months ended 31 March 2002 is analysed as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Japan	113,761	164,988
Mainland China	17,555	21,721
Others	<u>4,356</u>	<u>6,404</u>
	<u><u>135,672</u></u>	<u><u>193,113</u></u>

Others include Hong Kong, Malaysia, Singapore, Europe and the United States of America.

No analysis of profit attributable to shareholders by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

## 5. Profit/(loss) from operating activities

Profit/(loss) from operating activities is arrived after charging and crediting the following:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
After charging:		
Staff cost (include director's emoluments)	25,764	16,529
Depreciation of property, plant and equipment	2,324	2,901
Provision for obsolete and slow-moving inventories	4,513	200
Provision for doubtful trade receivables	3,856	1,600
Auditors' remuneration	550	680
Operating lease rental of rented premises	328	396
Loss on disposal of fixed assets	<u>117</u>	<u>—</u>
After crediting:		
Interest income	1,132	423
Write-back of provision for obsolete and slow-moving inventories	1,914	—
Write-back of provision for doubtful trade receivable	<u>1,600</u>	<u>—</u>

## 6. Finance costs

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on:		
Bank borrowings	1,237	1,675
Convertible bond	<u>116</u>	<u>—</u>
	<u>1,353</u>	<u>1,675</u>

## 7. Taxation

The Company and its subsidiaries are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which they operate.

Provision for taxation for the twelve months ended 31 March 2002 represents provision for Mainland China Enterprise Income Tax at a reduced rate of 7.5% for Xiamen Xiyingsmen Furniture Product Co. Ltd. and at an effective tax rate of 15% on assessable profit for the other group companies with Mainland China operation.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit in Hong Kong during the period (2001: Nil).

There is no significant unprovided deferred taxation during the period (2001: Nil).

## 8. Dividend

The board of Directors has resolved not to declare any interim dividend in respect of the twelve months ended 31 March 2002. The dividend in 2001 were paid by a subsidiary of the Group to its then shareholders prior to the group reorganization and listing of the Company's shares on the Stock Exchange.

## 9. Earnings/(Losses) per share

The calculation of basic earnings/(losses) per share was based on the losses attributable to shareholders of approximately HK\$7,525,000 (2001: net profits of approximately HK\$41,719,000) and on the weighted average number of approximately 306,668,000 (2001: 231,538,000) shares in issue during the period.

No potential dilutive shares exist for the period ended 31 March 2002 and accordingly no diluted losses per share was shown.

The calculation of diluted earnings per share in 2001 was based on the profit attributable to shareholders of approximately HK\$41,719,000 and the weighted average number of approximately 232,143,000 shares in issue after adjusting for the effects of all dilutive potential shares. A reconciliation of the weighted average number of shares used in calculating basic and diluted earnings per share is as follows:

	2001 '000
Weighted average number of shares used in calculating basic earnings per share	231,538
Adjustment for potential dilutive effect in respect of outstanding share options	<u>605</u>
Weighted average number of shares used in calculating diluted earnings per share	<u><u>232,143</u></u>

## 10. Trade receivables

The credit terms of the Group range from 30 to 90 days. An ageing analysis of trade receivables is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 to 30 days	7,813	13,938
31 to 60 days	1,496	7,607
61 to 90 days	295	7,837
91 to 180 days	<u>913</u>	<u>4,294</u>
	10,517	33,676
Provision for doubtful trade receivables	<u>—</u>	<u>(1,600)</u>
	<u><u>10,517</u></u>	<u><u>32,076</u></u>

## 11. Trade payables

The credit terms of the Group range from 30 to 90 days. An ageing analysis of trade payables is as follows:

	<b>2002</b>	2001
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
0 to 30 days	<b>7,853</b>	6,305
31 to 60 days	<b>1,643</b>	994
61 to 90 days	<b>1,550</b>	228
91 to 180 days	<b>847</b>	299
181 to 365 days	<b>753</b>	270
	<b><u>12,646</u></b>	<u>8,096</u>

## 12. Share Capital and Convertible Bond

Pursuant to the Subscription Agreement entered into between the Company and Best Mineral Resources Limited ("Best Mineral"), the terms of which are set out in the Circular dated 20 October 2001 issued by the Company, 140,000,000 ordinary shares of the Company were issued on 19 November 2001 at a subscription price of HK\$0.4 per share. In addition, a total amount of HK\$16,000,000 Convertible Bond at the initial conversion price of HK\$0.40 per share was also issued to Best Mineral at the same date.

## 13. Reserves

Movements in reserves were:

	<b>For the twelve months ended</b>				
	<b>31 March 2002</b>				
	<b>Share premium</b>	<b>Capital reserve</b>	<b>Statutory reserve</b>	<b>Revaluation reserve</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Beginning of period	1,755	19,193	1,701	7,936	30,585
Transfer to statutory reserve	—	—	140	—	140
Surplus on revaluation of land and buildings	—	—	—	397	397
Premium on issue of ordinary shares	43,315	—	—	—	43,315
Share issuance expenses	<u>(5,323)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,323)</u>
End of period	<b><u>39,747</u></b>	<b><u>19,193</u></b>	<b><u>1,841</u></b>	<b><u>8,333</u></b>	<b><u>69,114</u></b>



## **BUSINESS REVIEW**

The turnover of the Group for the twelve months period ended 31 March 2002 was HK\$135.7 million, represented a decrease of approximately 30% as compared to the turnover of HK\$193.1 million in last twelve months period. The Japanese and Mainland China markets continue to play a dominant role in the Group's overall business, contributed approximately 84% and 13% respectively to the Group's revenue.

With a decline in gross margin from approximately 35% in last year to approximately 18% in this twelve months period, the Group recorded a loss from operations of HK\$6.5 million in 2002 as compared to the HK\$49.5 million operating profit in 2001.

Turnover and gross margins fell as a result of our heavy reliance on the Japanese market. Because of the economic restructuring and overall gloomy atmospheres, the wooden furniture market in Japan becomes very price competitive and the Group has to lower the average selling price to maintain its competitiveness and market share.

Contributing to the loss of this period was two specific provisions for the trade receivables and inventories amounted to a total of approximately HK\$8.4 million.

## **PROSPECT**

The Group will continue to minimise the reliance on the Japanese market. After the PRC's entry into the WTO, more resources would be put into the PRC market to capture the favourable business environment. Stringent control policies to strengthen product quality and lower manufacturing and operating overheads would continue to be implemented in order to increase the Group's turnover and overall margins.

On 19 November 2001, 140,000,000 shares of the Company with a total subscription amount of HK\$56 million, and an amount of HK16 million convertible bond were issued to Best Mineral Resources Limited. With the funds injected, the Directors believe the Company is in a better position to leverage on Best Mineral's connection in the PRC to identify future investment opportunities in the PRC.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2002, the Group maintained a sound financial position where the cash and bank balances and current ratio were approximately HK\$33 million and 3.1 respectively.

Short term bank borrowing remained at a low level of approximately HK\$14 million as at 31 March 2002.

## **EMPLOYEES**

As at 31 March 2002, the Group employed approximately 1,000 full time employees, of which 995 were based in Mainland China. The remuneration of the employees are based on individual merits and years of experiences.

## **DIRECTORS' INTERESTS IN SECURITIES**

At 31 March 2002, the interests of Directors in the shares of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company under section 29 of the SDI Ordinance or as otherwise notified the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

<b>Name of Director</b>	<b>Number of shares</b>
Mr. Liu Sean	140,000,000 ( <i>Note 1</i> )
Mr. Yau Kwai Tun	120,500,000 ( <i>Note 2</i> )

*Notes:*

1. 140,000,000 shares were registered in the name of Best Mineral, a private company which is beneficially owned by Mr. Liu Sean as to 70%.
2. 120,500,000 shares were registered in the name of Wealth Vision Investments Limited ("Wealth Vision"), a private company wholly owned by Mr. Yau Kwai Tun.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Under the Company's new option scheme adopted on 6 November 2001, the terms of which are set out in the circular dated 20 October 2001 issued by the Company, the board of directors may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company. This share option scheme will expire at the close of business on the day preceding the tenth anniversary thereof. As at 31 March 2002, no option has been granted under this scheme.

## **SUBSTANTIAL SHAREHOLDERS**

Other than Best Mineral and Wealth Vision which held approximately 35.1% and 30.2% respectively of the issued share capital of the Company as at 31 March, 2002, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more of the issued share capital of the Company.

## **SHARE OPTION SCHEME**

Apart from the new option scheme adopted on 6 November 2001 as disclosed above, 6,322,500 share options out of the total of 12,645,000 share options granted on 1 December 2000 under the previous share option scheme of the Company adopted on 28 September 2000 were exercised at the exercise price of HK\$0.308 during the twelve months period ended 31 March 2002.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the twelve months ended 31 March 2002.

## **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 for any part of the twelve months ended 31 March 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

## **AUDIT COMMITTEE**

The Audit Committee of the Group has reviewed with the management of the group the accounting principles and practices adopted by the Group, its internal controls and financial reporting matters including this second interim financial report.

By Order of the Board  
**Sean Liu**  
*Director*

Hong Kong, 26 June 2002