

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

1. BASIS OF PREPARATION

- (a) 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 on The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").
- (b) As explained in the Company's consolidated financial statements for the nine months ended 31st December, 2001, the Directors have been unable to obtain sufficient documentary evidence to satisfy themselves as to whether the net liabilities of the Group as at 31st March, 2001, and the results and cash flows and the associated disclosures in the notes to the financial statements of the Group for the year then ended were fairly stated. Any adjustments to the net liabilities of the Group at 31st March, 2001 would affect the net profit and cash flows and the associated disclosures in the notes to the condensed financial statements of the Group for the six months ended 30th September, 2001. Also the comparative figures shown in the condensed consolidated income statement for the six months ended 30th September, 2001 may not be comparable with the figures for the current period.

Also, the Directors have been unable to obtain sufficient documentary evidence to satisfy themselves as to whether any material modification is required to be made to trade and other payables amounting to HK\$25,102,000 which were included in the consolidated balance sheet as at 31st December, 2001.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the financial statements of the Group for the nine months ended 31st December, 2001. In the current period, the Group has adopted the following revised or new SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

In accordance with SSAP15 (Revised), cash flows are classified according to operating, investing and financing activities. Condensed consolidated cash flow statement for the six months ended 30th September, 2001 has been presented on a consistent basis.

Except for the above, the adoption of the revised and new SSAPs has no material impact on the Group's financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

3. SEGMENT INFORMATION

The Group's operations are principally located in the People's Republic of China (the "PRC") including Hong Kong. An analysis of the Group's revenue and segment results by business and geographical segments is as follows:

BUSINESS SEGMENTS

	Distribution and manufacturing of cement and clinker HK\$'000 (unaudited)	Sales of goods HK\$'000 (unaudited)	Installation services HK\$'000 (unaudited)	Distribution of tiles, granite and marble products Total HK\$'000 (unaudited)	Consolidated HK\$'000 (unaudited)
1.1.2002 to 30.6.2002					
Segment revenue	87,562	2,002	587	2,589	90,151
Segment results	25,379			197	25,576
Amortisation of goodwill	(2,340)			-	(2,340)
Indirect overheads					(3,579)
Gain on deconsolidation of subsidiaries					27,838
Profit from operations					47,495
Finance costs					(2,666)
Share of results of a jointly controlled entity	3,483			-	3,483
Profit before taxation					48,312

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

3. SEGMENT INFORMATION (CONT'D)**BUSINESS SEGMENTS (CONT'D)**

	Distribution and manufacturing of cement and clinker HK\$'000 (unaudited)	Distribution of tiles, granite and marble products Sales of goods HK\$'000 (unaudited)	Installation services HK\$'000 (unaudited)	Total HK\$'000 (unaudited)	Consolidated HK\$'000 (unaudited)
1.4.2001 to 30.9.2001					
Segment revenue	12,466	6,023	-	6,023	18,489
Segment results	1,714			1,493	3,207
Amortisation of goodwill	(1,699)			-	(1,699)
Indirect overheads					(3,836)
Gain on deconsolidation of subsidiaries					61,121
Profit from operations					58,793
Gain on financial restructuring					976,860
Restructuring expenses					(14,338)
Finance costs					(48)
Share of results of a jointly controlled entity	11,600			-	11,600
Profit before taxation					1,032,867

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

3. SEGMENT INFORMATION (CONT'D)**GEOGRAPHICAL SEGMENTS**

	Hong Kong		Mainland China		Total	
	1.1.2002 to 30.6.2002	1.4.2001 to 30.9.2001	1.1.2002 to 30.6.2002	1.4.2001 to 30.9.2001	1.1.2002 to 30.6.2002	1.4.2001 to 30.9.2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue	2,589	6,023	87,562	12,466	90,151	18,489
Segment results	197	1,493	25,379	1,714	25,576	3,207
Amortisation of goodwill			(2,340)	(1,699)	(2,340)	(1,699)
Indirect overheads					(3,579)	(3,836)
Gain on deconsolidation of subsidiaries					27,838	61,121
Profit from operations					47,495	58,793
Gain on financial restructuring					-	976,860
Restructuring expenses					-	(14,338)
Finance costs					(2,666)	(48)
Share of results of a jointly controlled entity			3,483	11,600	3,483	11,600
Profit before taxation					48,312	1,032,867

4. GAIN ON DECONSOLIDATION OF SUBSIDIARIES

It represents gain on deconsolidation of subsidiaries which were put into liquidation during both periods.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	1.1.2002 to 30.6.2002 <hr/> HK\$'000 (unaudited)	1.4.2001 to 30.9.2001 <hr/> HK\$'000 (unaudited)
Depreciation of property, plant and equipment	4,162	54
Interest income	(271)	(343)
Gain on disposal of investment in non-current equity securities	(1,253)	-

6. GAIN ON FINANCIAL RESTRUCTURING

	1.1.2002 to 30.6.2002 <hr/> HK\$'000 (unaudited)	1.4.2001 to 30.9.2001 <hr/> HK\$'000 (unaudited)
Gain on debts waived	-	957,583
Write-back of share of loss in an associate	-	19,375
Loss on disposal of subsidiaries	-	(98)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

7. FINANCE COSTS

	1.1.2002 to 30.6.2002 HK\$'000 (unaudited)	1.4.2001 to 30.9.2001 HK\$'000 (unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	2,663	48
Finance lease obligations	3	–
	<u>2,666</u>	<u>48</u>

8. TAXATION

	1.1.2002 to 30.6.2002 HK\$'000 (unaudited)	1.4.2001 to 30.9.2001 HK\$'000 (unaudited)
Current tax	2,559	–
Deferred tax	399	–
	<u>2,958</u>	<u>–</u>
Share of tax of a jointly controlled entity	470	978
	<u>3,428</u>	<u>978</u>

Current tax represents PRC Income Tax calculated at the applicable rate on estimated assessable profits.

No provision for Hong Kong Profits Tax has been made as the income neither arises, nor is derived from, Hong Kong.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

9. EARNINGS PER SHARE

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

	1.1.2002 to 30.6.2002 (unaudited)	1.4.2001 to 30.9.2001 (unaudited)
Earnings:		
Net profit for the period for the purpose of basic and diluted earnings per share	HK\$35,523,000	HK\$1,030,118,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>36,469,752,178</u>	27,731,667,893
Effect of dilutive potential ordinary shares – convertible note		10,856,789
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>27,742,524,682</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

9. EARNINGS PER SHARE (CONT'D)

The additional basic and diluted earnings per share have also been presented based on profit excluding certain non-recurring items as follows:

	1.1.2002 to 30.6.2002 <hr/> HK\$'000 (unaudited)	1.4.2001 to 30.9.2001 <hr/> HK\$'000 (unaudited)
Net profit for the period	35,523	1,030,118
Adjustment for:		
Gain on debts waived	–	(957,583)
Write-back of share of loss in an associate	–	(19,375)
Restructuring expenses	–	14,338
Loss on disposal of subsidiaries	–	98
Earnings for the period for the purpose of basic and diluted earnings per share excluding non-recurring items	<hr/> 35,523	<hr/> 67,596

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

No diluted earnings per share has been presented for the six months ended 30th June, 2002 as the Company has no potential ordinary shares in issue during the period.

The computation of diluted earnings per share for the six months ended 30th September, 2001 did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the market price of shares.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

	30.6.2002
	HK\$'000 (unaudited)
Balance at 1st January, 2002	1,812
Net book value of property, plant and equipment of a former jointly controlled entity now accounted for as a subsidiary	285,289
Additions	800
Depreciation charge	(4,162)
Balance at 30th June, 2002	283,739

11. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	30.6.2002	31.12.2001
	HK\$'000 (unaudited)	HK\$'000 (audited)
Share of net assets	–	169,118

As a result of the approval of the amendments to the joint venture contract and joint venture articles of Shanghai Allied Cement Co., Ltd ("Shanghai SAC"), by the relevant governmental regulatory authority on 14th March 2002, Shanghai SAC, the major jointly controlled entity of the Group, became a subsidiary of the Group. Since then, the results, assets and liabilities of Shanghai SAC have been consolidated into those of the Group.

12. PROPERTIES HELD FOR SALE

Properties were transferred from trade debtors of Shanghai SAC in lieu of cash settlement and registered in the name of Shanghai SAC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

13. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables are trade receivables of approximately HK\$137,721,000 and their aged analysis is as follows:

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0 – 90 days	66,190	6,245
91 – 180 days	43,740	93
181 – 365 days	15,510	–
Over 1 year	12,281	–
	<u>137,721</u>	<u>6,338</u>

Included in trade receivables above are commercial bills of HK\$55,336,000 (31.12.2001: nil), which can be discounted for cash with financial institutions.

14. TRADE AND OTHER PAYABLES AND DEPOSITS

Included in trade and other payables and deposits are trade payables of approximately HK\$23,751,000 and their aged analysis is as follows:

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0 – 90 days	21,077	1,868
91 – 180 days	1,571	2,562
181 – 365 days	404	–
Over 1 year	699	24,626
	<u>23,751</u>	<u>29,056</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*FOR THE SIX MONTHS ENDED 30TH JUNE, 2002***15. BANK BORROWINGS**

During the current period, in addition to the increase in bank borrowings resulted from consolidation of Shanghai SAC, the Group (including Shanghai SAC) had a net increase in bank loans by approximately HK\$29,974,000 (1.4.2001 to 30.9.2001: nil) which provided additional working capital to the Group.

16. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1st January, 2002	40,000,000,000	400,000
Increase on 23rd May, 2002	10,000,000,000	100,000
At 30th June, 2002	50,000,000,000	500,000
Issued and fully paid:		
At 30th June, 2002 and 31st December, 2001	36,469,752,178	364,697

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

17. CONSOLIDATION OF A FORMER JOINTLY CONTROLLED ENTITY

As described in note 11, Shanghai SAC has become a subsidiary of the Group since 14th March, 2002. The effect of consolidation of the assets and liabilities of Shanghai SAC is summarised below:

	1.1.2002 to 30.6.2002 <hr/> HK\$'000 (unaudited)
NET ASSETS CONSOLIDATED	
Property, plant and equipment	285,289
Properties held for sale	7,872
Inventories	22,640
Trade and other receivables	164,863
Deposits and prepayments	293
Bank balances and cash	8,863
Trade and other payables and deposits	(39,939)
Amounts due to related companies	(21,976)
Amount due to minority shareholder	(11,766)
Tax liabilities	(1,197)
Bank borrowings	(126,937)
Deferred taxation	(1,120)
	<hr/> 286,885
Less: amount attributable to minority interests	(114,754)
Amount attributable to the Group and previously classified as interest in a jointly controlled entity	<hr/> 172,131
Net cash inflow arising from consolidation of Shanghai SAC	
Bank balances consolidated	<hr/> <hr/> 8,863

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

18. OPERATING LEASE COMMITMENTS

In June 2001, the Group entered into an arrangement with a PRC third party to lease its production facilities for manufacture of cement with a term of twenty years. Under a supplemental agreement with the PRC third party, the Group has an option to terminate the said lease in June of 2003 and within a two-year period starting from June 2003. The Group has no current intention to terminate the lease.

Under the above arrangement, at 30th June, 2002, the Group had commitments to pay rental expenses which fall due as follows:

	<u>30.6.2002</u> HK\$'000 (unaudited)	<u>31.12.2001</u> HK\$'000 (audited)
Within one year	3,113	3,577
In the second to fifth year inclusive	–	1,572
	<u>3,113</u>	<u>5,149</u>

The above commitment represents rental payments up to the end of the first two-year period where such option to terminate the lease may be exercised by the Group. From the second year to the fifth year inclusive, the rental will be escalated by a fixed amount of approximately HK\$470,000 per annum. Starting from the sixth year onwards, the rental is fixed at the same amount as that of the fifth year.

19. CONTINGENT LIABILITIES

	<u>30.6.2002</u> HK\$'000 (unaudited)	<u>31.12.2001</u> HK\$'000 (audited)
Guarantees given to banks and financial institutions in respect of facilities utilised by:		
– a fellow subsidiary	14,151	–
– a third party	6,981	–
Discounted commercial bills	9,675	–
	<u>30,807</u>	<u>–</u>

20. PLEDGE OF ASSETS

At 30th June, 2002, short-term banks deposits of approximately HK\$5,068,000 (31.12.2001: HK\$7,256,000) were pledged to banks to secure credit facilities granted to the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

21. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group has entered into the following transactions with related parties:

	1.1.2002 to 30.6.2002 HK\$'000 (unaudited)	1.4.2001 to 30.9.2001 HK\$'000 (unaudited)
(i) Ultimate holding company		
Office rental expenses	393	310
(ii) Jointly controlled entity		
Sales of cement and clinker	4,646	5,453
Guarantee fee income	88	-
Guarantee fee payment	151	-
(iii) Fellow subsidiaries		
Management fee	263	-
Guarantee fee income	89	-
Guarantee fee payment	211	-
(iv) A jointly controlled entity of a fellow subsidiary		
Sales of cement and clinker	491	-
(v) Minority shareholder		
Rental expenses, repair and maintenance	2,356	-
(vi) Subsidiaries of a company which has significant beneficial interests in the Company's ultimate holding company		
Office cleaning charges, repair and maintenance	28	21
Rental charges for accommodation	84	-
(vii) A lawyers' firm in which an independent non-executive director is a partner		
Legal and professional fees	291	-

The above transactions were carried out at terms agreed between the related parties.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

21. RELATED PARTY TRANSACTIONS (CONT'D)

(b) At 30th June, 2002, the Group had the following balances with related parties:

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
	(unaudited)	(audited)
(i) Ultimate holding company		
Other payables	10,774	–
(ii) Jointly controlled entity		
Trade and other receivables	–	2,085
Trade and other payables	–	584
(iii) Fellow subsidiaries		
Guarantees provided by a fellow subsidiary to banks for bank loans granted to the Group	73,214	73,000
Trade receivables	184	–
Other payables	1,087	–
(iv) A jointly controlled entity of a fellow subsidiary		
Other receivables	327	–
(v) Minority shareholder		
Other payables	14,102	–
(vi) Subsidiaries of a company which has significant beneficial interests in the Company's ultimate holding company		
Other payables	12	–
(vii) A lawyers' firm in which an independent non-executive director is a partner		
Other payables	251	–