



## **RESULTS**

For the half year ended 30th June, 2002, the Group recorded a turnover of HK\$63,890,000 (30.6.2001: HK\$28,082,000), representing a substantial increase of 128% over the corresponding period in the previous year, and has successfully reverted the state of loss, and has recorded a profit of HK\$836,000 for the first half year (30.6.2001: a loss of HK\$2,339,000).

## **MATERIAL EVENTS**

### **Rights Issue**

On 10th April, 2002, the Company successfully issued 133,240,043 new shares of the Company of HK\$0.10 each, at HK\$0.21 per share by way of rights issue. The proceeds from the rights issue of approximately HK\$27,980,000 (before expenses) will be applied as the working capital of the Group.

### **Acquisition**

On 19th February, 2002, the Company entered into an Acquisition Agreement with Mr. Wong Hou leong, pursuant to which the Company acquired the entire issued share capital and shareholder's loan of Can Manage Trading Limited ("Can Manage") at a total consideration of HK\$270,000,000. The principle asset of Can Manage is represented by its entire share interests in Nanhai Jia Shun Timber Company Limited ("Nanhai Jia Shun"), whereas the principal operations of Nanhai Jia Shun is the production and sale of medium density fiberboard ("MDF"). The Acquisition Agreement has been completed on 9th May this year.



On 25th June, 2002, the Group has entered into an Acquisition Agreement with Mr. Wong Hoi Jeong in respect of the acquisition of the entire issued share capital and shareholders' loan of Shi Men Properties Limited ("Shi Men") respectively, at a total consideration of HK\$38,306,000. The main assets of Shi Men is its entire shareholding in Nanhai Heng Da Timber Company Limited ("Nanhai Heng Da"), and the main operations of Nanhai Heng Da is the production and sale of single board, medium board, mould board and plywood. The Acquisition Agreement has been completed on 25th June this year.

### **Ongoing Connected Transactions**

In view of the Power Supply Agreement entered into between Nanhai Jia Shun, Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang"), Nanhai Heng Da, Nanhai Hua Ying Timber Company Limited ("Hua Ying"), Smart Giant Investment Limited and Nanhai Heng Yi Timber Company Limited in respect of the co-management and co-use of the Power Plant, the Board expects that upon the completion of the acquisition, Nanhai Jia Shun will continue to perform its obligations and rights in accordance with the Power Supply Agreement. As Hua Guang and Hua Ying are beneficially owned by the Company's substantial shareholder Madam Lu Biru and her spouse, accordingly, upon the completion of the Acquisition Agreement, the transaction involved under the Power Supply Agreement shall constitute ongoing connected transactions of the Company for the purpose of the Listing Rules. The Company had applied to and had been conditionally approved by the Stock Exchange for a waiver from the disclosure and shareholders' approval requirements in connection with the Ongoing Connected Transactions as required under the Listing Rules for a period of three financial years ending 31st December, 2004.



## **Placing of Convertible Notes**

On 19th February, 2002, the Company entered into a Placing and Underwriting Agreement with the Placing Agents in respect of the placing of HK\$230,000,000 five year term Convertible Notes. The Convertible Notes will bear interest from the date of issue of the Convertible Notes at the rate of 1 per cent per annum, and the holders of the Convertible Notes shall be entitled to exercise their rights of conversion at an initial conversion price of HK\$0.27 per share during the conversion period (subject to adjustments pursuant to the terms of the Convertible Notes). The Placing and the Underwriting Agreement has already been completed on 9th May, 2002, and the net proceeds from the placing of the Convertible Notes were mainly applied as funds for the acquisition of Can Manage. The balance after the completion of the acquisition shall be applied as the working capital of the Group.

## **BUSINESS REVIEW**

### **Hotels**

The Guilin Plaza Hotel has maintained an average occupancy of approximately 75% in the first half year. As result of the large scale renovation works and the upgrading to a four star hotel, the quality of the customer sources and the pricing of room rates are all increasing gradually, making the gross margin of the hotel to increase. Therefore, the hotel has recorded a turnover of HK\$11,597,000, an increase of 10% over the corresponding period in the previous year, and operating profit has increased significantly by 70% to HK\$3,322,000.



## **Real Estate**

The real estate market in Hong Kong is still under the impact of unfavorable economic conditions. The Group's rental income in the first half year has dropped slightly by 2% to HK\$2,020,000, and after deducting expenses, has recorded a profit of HK\$1,112,000, an increase of 20% over the corresponding period in the previous year. The total value of the Group's properties pending for sale and under development in the PRC amounted to HK\$184,600,000.

## **Trading of Steel**

For the six months ended 30th June, 2002, turnover in respect of the steel trading operations amounted to HK\$33,124,000, a significant increase of 115% over the corresponding period in the previous year, and loss for the period has also been substantially narrowed to HK\$32,000, a reduction of 90% over the corresponding period in the previous year.

## **Timber Business**

On 9th May this year, the Group has successfully acquired Nanhai Jia Shun, the main operation of which is the production and sale of MDF. During the period from the completion date of the acquisition to 30th June, 2002, Nanhai Jia Shun recorded a turnover of HK\$17,149,000, providing the Group with a profit contribution of HK\$7,601,000. In view that: (1) the operating profit of Nanhai Jia Shun since 1st January, 2002 to the completion date of the acquisition was HK\$13,578,000, which has included in the net assets value as at acquisition date and eliminated against the investment costs in calculation of the goodwill; (2) the third production line of Nanhai Jia Shun has been put into production in May this year, annual production volume in the second half year will be substantially increased from 100,000 cubic meters to



180,000 cubic meters; (3) supply will be unable to satisfy demands from both domestic and overseas markets, and Nanhai Jia Shun will be flooded with orders. Therefore, the Group expects that the after-tax profit of Nanhai Jia Shun for the whole year of 2002 will not be less than HK\$70,000,000 as guaranteed in the undertakings made by the vendor to the Group.

### **Capital and Funding**

In view of the successful completion of the rights issue and the placing of HK\$230,000,000 Convertible Notes by the Group during the period, the total equity and long-term borrowings has been increased to HK\$711,627,000, and total borrowings has been increased to HK\$275,217,000 as at 30th June, 2002. The gear ratio was 39%.

### **FOREIGN EXCHANGE EXPOSURE**

The Group does not anticipate any material foreign exchange exposure since its cash and cash equivalents held, borrowings, revenue and expenses are denominated either in Hong Kong Dollars or Renminbi or United States Dollars.

### **EMPLOYEES**

The total number of employees of the Group is approximately 825.

The remuneration of each employee of the Group is determined on the basis of his or her performance and experience. The Group provides education allowances to all the employees.



## PROSPECTS

The Group has successfully turned the operation results from loss to profit under severe operating environments, which has been mainly attributable to significant reduction of operating expenditure besides exploring for resources on the basis of the existing operations, the Group has more accurately perceived market demands for fiberboard like decorative boards, and has identified suitable investment projects in the PRC, thus providing significant and recurring revenue to the Group.

The future direction of the Group will continue to explore the fiberboard business in line with the market demands for decorative boards, and strive to become one of the leading producers in the domestic board market. At the same time, the Group is still continuing to seek for other steady investment projects, in order to gradually strengthen the operations of the Group.

## DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2002, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

| <b>Name of Director</b> | <b>Number of shares held<br/>Corporate interests</b> |
|-------------------------|--|
| Leung Siu Fai           | 151,610,779<br>(note)                                |

*Note:* These shares are held in the name of Mighty Management Limited which is controlled by Mr. Leung Siu Fai.

Save as disclosed above, none of the Directors, chief executives, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.



## SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 28th June, 1994, a share option scheme for the benefit of the employees was adopted for a period of 10 years whereby the Board of Directors of the Company may offer to any director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

There were no options outstanding at beginning and end of the period. No option was granted, exercised, lapsed or cancelled during the period.

Save as aforesaid, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the shares of the Company.



## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, according to the register of interests kept by the Company under Section 16(1) of the SDI Ordinance, the shareholders who were interested in 10% or more of the issued share capital of the Company are as follows:

| Name   | Number of shares held         | Percentage of total issued shares |
|--|-------------------------------|-----------------------------------|
| Mighty Management Limited  | 151,610,779 ( <i>note 1</i> ) | 18.96%                            |
| Ms. Lu Biru  | 131,657,142                   | 16.47%                            |
| Mr. Ng Lap Seng, Ms. Pun Nun Ho<br>and San Kin Yip Holdings<br>Company Limited ( <i>note 2</i> ) | 82,213,341                    | 10.28%                            |

Save as disclosed above, no other parties were recorded in the register as having an interest in 10% or more of the issued share capital of the Company.

### Notes:

1. These shares are disclosed above in the section "Directors' Interests in Shares".
2. San Kin Yip Holdings Company Limited which held 78,631,159 shares as at 30th June, 2002 is beneficially equally held by Mr. Ng Lap Seng and Ms. Pun Nun Ho. In addition, Mr. Ng Lap Seng and Ms. Pun Nun Ho also equally held 3,582,182 shares as at 30th June, 2002.

## INTERIM DIVIDEND

The Directors resolved not to pay an interim dividend for the six months ended 30th June, 2002 (2001: nil).





## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a general review of the unaudited interim financial statements for the six months ended 30th June, 2002. The interim financial report for the period ended 30th June, 2002 is unaudited, but has been reviewed in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants, by Deloitte Touche Tohmatsu.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, at any time during the six months ended 30th June, 2002.

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

During the six months ended 30th June, 2002, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed shares.

By Order of the Board  
**Leung Siu Fai**  
*Chairman*

Hong Kong, 19th September, 2002



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**Deloitte  
Touche  
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### INDEPENDENT REVIEW REPORT

To the Board of Directors of China Investments Holdings Limited

#### Introduction

We have been instructed by the Company to review the interim financial report set out on page 12 to 26.

#### Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 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 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of 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.

### **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 30th June, 2002.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 19th September, 2002



## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2002

|                                | Notes | Six months ended                     |                                      |
|--------------------------------|-------|--------------------------------------|--------------------------------------|
|                                |       | 30.6.2002<br>HK\$'000<br>(unaudited) | 30.6.2001<br>HK\$'000<br>(unaudited) |
| Turnover                       | 3     | 63,890                               | 28,082                               |
| Cost of sales and services     |       | <u>(48,016)</u>                      | <u>(19,702)</u>                      |
| Gross profit                   |       | 15,874                               | 8,380                                |
| Other income                   |       | 228                                  | 158                                  |
| Selling and distribution costs |       | (436)                                | (352)                                |
| Administrative expenses        |       | <u>(13,470)</u>                      | <u>(8,768)</u>                       |
| Profit (loss) from operations  | 4     | 2,196                                | (582)                                |
| Finance costs                  |       | <u>(1,360)</u>                       | <u>(1,757)</u>                       |
| Profit (loss) for the period   |       | <u>836</u>                           | <u>(2,339)</u>                       |
| Earnings (loss) per share      | 6     |                                      |                                      |
| Basic                          |       | <u>HK0.115 cent</u>                  | <u>(HK0.401 cent)</u>                |
| Diluted                        |       | <u>N/A</u>                           | <u>N/A</u>                           |

There were no recognised gains or losses other than the profit (loss) for the period.



## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2002

|                                 |    | 30.6.2002<br>HK\$'000<br>(unaudited) | 31.12.2001<br>HK\$'000<br>(audited) |
|---------------------------------|----|--------------------------------------|-------------------------------------|
| <b>Non-current Assets</b>       |    |                                      |                                     |
| Investment properties           | 7  | 82,500                               | 82,500                              |
| Property, plant and equipment   | 8  | 296,959                              | 166,502                             |
| Properties held for development |    | 80,000                               | 80,000                              |
| Goodwill                        | 9  | 111,767                              | —                                   |
| Investments in securities       |    | 1                                    | 1                                   |
| Club debenture                  |    | 205                                  | 205                                 |
|                                 |    | 571,432                              | 329,208                             |
| <b>Current Assets</b>           |    |                                      |                                     |
| Properties held for sale        |    | 104,600                              | 104,600                             |
| Inventories                     |    | 19,467                               | 12,167                              |
| Trade and other receivables     | 10 | 50,641                               | 6,218                               |
| Investments in securities       |    | 156                                  | 156                                 |
| Pledged bank deposits           | 16 | 10,840                               | 10,737                              |
| Bank balances and cash          |    | 22,675                               | 31,249                              |
|                                 |    | 208,379                              | 165,127                             |
| <b>Current Liabilities</b>      |    |                                      |                                     |
| Trade and other payables        | 11 | 46,421                               | 16,477                              |
| Tax payable                     |    | 2,546                                | 2,546                               |
| Bank borrowings                 |    |                                      |                                     |
| - due within one year           | 12 | 19,217                               | 17,991                              |
|                                 |    | 68,184                               | 37,014                              |
| <b>Net Current Assets</b>       |    | 140,195                              | 128,113                             |
|                                 |    | 711,627                              | 457,321                             |
| <b>Capital and Reserves</b>     |    |                                      |                                     |
| Share capital                   | 13 | 79,944                               | 66,620                              |
| Reserves                        | 14 | 375,683                              | 361,451                             |
|                                 |    | 455,627                              | 428,071                             |
| <b>Non-current Liabilities</b>  |    |                                      |                                     |
| Convertible notes               | 15 | 230,000                              | —                                   |
| Bank borrowings                 |    |                                      |                                     |
| - due after one year            | 12 | 26,000                               | 29,250                              |
|                                 |    | 256,000                              | 29,250                              |
|                                 |    | 711,627                              | 457,321                             |



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30th June, 2002*

|   | Six months ended     |                      |
|---|----------------------|----------------------|
|   | 30.6.2002            | 30.6.2001            |
|   | HK\$'000             | HK\$'000             |
|   | ( <i>unaudited</i> ) | ( <i>unaudited</i> ) |
| Net cash used in operating activities   | (5,074)              | (10,988)             |
| Net cash used in investing activities   | (136,275)            | —                    |
| Net cash from financing activities  | 133,479              | 1,599                |
| Decrease in cash and cash equivalents   | (7,870)              | (9,389)              |
| Cash and cash equivalents<br>at beginning of period                                     | 30,545               | 23,882               |
| Cash and cash equivalents<br>at end of period, represented<br>by Bank balances and cash | 22,675               | 14,493               |



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2002*

### 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 on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement, but has had no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been required.

#### **Foreign Currencies**

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.



## 2. PRINCIPAL ACCOUNTING POLICIES - continued

### **Goodwill**

Goodwill arising from consolidation represents the excess cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition of a subsidiary and is capitalised and amortised on a straight-line basis over its estimated economic useful life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

### **Cash flow statements**

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three heading - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating and financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.





### 3. SEGMENT INFORMATION

#### Business Segments

| Six months ended<br>30th June, 2002 | Fibreboard<br>and veneer<br><i>HK\$'000</i> | Hotel<br>operations<br><i>HK\$'000</i> | Trading<br><i>HK\$'000</i> | Property<br>investment<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|-------------------------------------|---|--|----------------------------|---|---------------------------------|
| TURNOVER                            | <u>17,149</u>                               | <u>11,597</u>                          | <u>33,124</u>              | <u>2,020</u>                              | <u>63,890</u>                   |
| RESULTS                             |   |  |                            |   |                                 |
| Segment results                     | <u>7,601</u>                                | <u>3,322</u>                           | <u>185</u>                 | <u>1,112</u>                              | <u>12,220</u>                   |
| Interest income                     |   |  |                            |   | 89                              |
| Unallocated corporate<br>expenses   |   |  |                            |   | <u>(10,113)</u>                 |
| Profit from operations              |   |  |                            |   | 2,196                           |
| Finance costs                       |   |  |                            |   | <u>(1,360)</u>                  |
| Profit for the period               |   |  |                            |   | <u>836</u>                      |
| Six months ended<br>30th June, 2001 | Fibreboard<br>and veneer<br><i>HK\$'000</i> | Hotel<br>operations<br><i>HK\$'000</i> | Trading<br><i>HK\$'000</i> | Property<br>investment<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
| TURNOVER                            | <u>—</u>                                    | <u>10,587</u>                          | <u>15,427</u>              | <u>2,068</u>                              | <u>28,082</u>                   |
| RESULTS                             |   |  |                            |   |                                 |
| Segment results                     | <u>—</u>                                    | <u>1,952</u>                           | <u>(328)</u>               | <u>930</u>                                | <u>2,554</u>                    |
| Interest income                     |   |  |                            |   | 151                             |
| Unallocated corporate<br>expenses   |   |  |                            |   | <u>(3,287)</u>                  |
| Loss from operations                |   |  |                            |   | (582)                           |
| Finance costs                       |   |  |                            |   | <u>(1,757)</u>                  |
| Loss for the period                 |   |  |                            |   | <u>(2,339)</u>                  |



### 3. SEGMENT INFORMATION - continued

#### Geographical Segments

| Six months ended<br>30th June, 2002 | The People's<br>Republic<br>of China,<br>other than<br>Hong Kong |                       | Consolidated<br>HK\$'000 |
|-------------------------------------|--|-----------------------|--------------------------|
|                                     | Hong Kong<br>HK\$'000  | Hong Kong<br>HK\$'000 |                          |
| TURNOVER                            | <u>28,746</u>  | <u>35,144</u>         | <u>63,890</u>            |
| RESULT                              |  |                       |                          |
| Segment results                     | <u>10,868</u>  | <u>1,352</u>          | 12,220                   |
| Interest income                     |  |                       | 89                       |
| Unallocated corporate expenses      |  |                       | <u>(10,113)</u>          |
| Profit from operations              |  |                       | 2,196                    |
| Finance costs                       |  |                       | <u>(1,360)</u>           |
| Profit for the period               |  |                       | <u>836</u>               |
| <br>                                |  |                       |                          |
| Six months ended<br>30th June, 2001 | The People's<br>Republic<br>of China,<br>other than<br>Hong Kong |                       | Consolidated<br>HK\$'000 |
|                                     | Hong Kong<br>HK\$'000  | Hong Kong<br>HK\$'000 |                          |
| TURNOVER                            | <u>10,601</u>  | <u>17,481</u>         | <u>28,082</u>            |
| RESULT                              |  |                       |                          |
| Segment results                     | <u>1,908</u>   | <u>646</u>            | 2,554                    |
| Interest income                     |  |                       | 151                      |
| Unallocated corporate expenses      |  |                       | <u>(3,287)</u>           |
| Loss from operations                |  |                       | (582)                    |
| Finance costs                       |  |                       | <u>(1,757)</u>           |
| Loss for the period                 |  |                       | <u>(2,339)</u>           |



#### 4. PROFIT (LOSS) FROM OPERATIONS

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

|   | Six months ended  |                   |
|---|-------------------|-------------------|
|   | 30.6.2002         | 30.6.2001         |
|   | HK\$'000          | HK\$'000          |
|   | (unaudited)       | (unaudited)       |
| Depreciation of property, plant and equipment | 2,717             | 711               |
| Amortisation of goodwill                      | 816               | —                 |
|   | <u>          </u> | <u>          </u> |

#### 5. TAXATION

No provision for Hong Kong Profits Tax or overseas taxation has been made in the financial statements as the Company and its subsidiaries have no assessable profits for either period.

#### 6. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit for the period of HK\$836,000 (30.6.2001: a loss of HK\$2,339,000) and on the weighted average number of 728,035,377 ordinary shares (30.6.2001: 582,925,192 ordinary shares) in issue during the period.

No diluted earning per share has been presented for the period ended 30th June, 2002 because the exercise of conversion of the Company's outstanding convertible notes would result in an increase in profit per share from continuing ordinary operations for the period.

No diluted loss per share was presented for the period ended 30th June, 2001 as there was no potential ordinary shares in issue for that period.

#### 7. INVESTMENT PROPERTIES

At 30th June, 2002, the directors have considered the carrying amounts of the Group's investment properties carried at the revalued amounts and have estimated that the carrying amounts as at 30th June, 2002 do not differ significantly from the open market value of those properties as at 30th June, 2002. Consequently, no revaluation surplus or deficit has been recognised in the current period.



## 8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment with net book value of approximately HK\$109,135,000 through the acquisitions of subsidiaries. In addition, the Group also acquired property, plant and equipment of approximately HK\$4,695,000 during the period.

## 9. GOODWILL

|  | <i>HK\$'000</i><br><i>(Unaudited)</i> |
|--|---------------------------------------|
| <b>COST</b>  |                                       |
| Arising on acquisition of subsidiaries<br>and balance at 30th June, 2002 | 112,583                               |
| <b>AMORTISATION</b>  |                                       |
| Charge for the period and balance at 30th June, 2002                     | <u>816</u>                            |
| <b>NET BOOK VALUE</b>  |                                       |
| At 30th June, 2002   | <u><u>111,767</u></u>                 |

The goodwill is arising on acquisitions on subsidiaries during the period. The amortisation period adopted for the goodwill is 20 years.

## 10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of the Group's trade receivables at the reporting date:

|                   | <b>30.6.2002</b><br><i>HK\$'000</i><br><i>(unaudited)</i> | 31.12.2001<br><i>HK\$'000</i><br><i>(audited)</i> |
|-------------------|---|---|
| 0 - 60 days       | 23,262  | 3,198   |
| 61 - 90 days      | 11,129  | 811   |
| 91 - 120 days     | 6,242   | 269   |
| >120 days         | <u>1,790</u>  | <u>37</u>   |
| Trade receivables | 42,423  | 4,315   |
| Other receivables | <u>8,218</u>  | <u>1,903</u>                                      |
|                   | <u><u>50,641</u></u>                                      | <u><u>6,218</u></u>                               |



## 11. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the reporting date:

|                | 30.6.2002<br><i>HK\$'000</i><br><i>(unaudited)</i> | 31.12.2001<br><i>HK\$'000</i><br><i>(audited)</i> |
|----------------|--|---|
| 0 - 60 days    | 2,570  | 4,498   |
| 61 - 90 days   | 688  | 205   |
| 91 - 120 days  | 490  | 140   |
|                | <hr/>  | <hr/>   |
| Trade payables | 3,748  | 4,843   |
| Other payables | 42,673   | 11,634  |
|                | <hr/>  | <hr/>   |
|                | <b>46,421</b>                                      | <b>16,477</b>                                     |
|                | <hr/> <hr/>  | <hr/> <hr/>                                       |

## 12. BANK BORROWINGS

During the period, the Group repaid HK\$34,643,000 (31.12.2001: HK\$6,500,000) of its bank loans, and obtained new bank loans of HK\$33,323,000 (31.12.2001: HK\$10,787,000).

The bank loans bear interest at market rates. The bank loans amounting to HK\$26,000,000 (31.12.2001: HK\$29,250,000) are repayable in instalments over a period of 5 years (31.12.2001: 5.5 years) and the remaining bank loans of HK\$19,217,000 (31.12.2001: HK\$17,287,000) are repayable within one year.



### 13. SHARE CAPITAL

|                                  | Number of shares     |                    | Nominal value  |                |
|----------------------------------|----------------------|--------------------|----------------|----------------|
|                                  | 30.6.2002            | 31.12.2001         | 30.6.2002      | 31.12.2001     |
|                                  |                      |                    | HK\$'000       | HK\$'000       |
|                                  | (unaudited)          | (audited)          | (unaudited)    | (audited)      |
| Ordinary shares of HK\$0.10 each |                      |                    |                |                |
| Authorised:                      |                      |                    |                |                |
| At beginning of the period/year  | 1,000,000,000        | 1,000,000,000      | 100,000        | 100,000        |
| Increase during the period/year  | 2,000,000,000        | —                  | 200,000        | —              |
| At end of the period/year        | <u>3,000,000,000</u> | <u>1,000,000</u>   | <u>300,000</u> | <u>100,000</u> |
| Issued and fully paid:           |                      |                    |                |                |
| At beginning of the period/year  | 666,200,219          | 582,925,192        | 66,620         | 58,293         |
| Issue of new shares              | 133,240,043          | 83,275,027         | 13,324         | 8,327          |
| At end of the period/year        | <u>799,440,262</u>   | <u>666,200,219</u> | <u>79,944</u>  | <u>66,620</u>  |

Pursuant to the special resolution passed on 8th April, 2002 in the special general meeting, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of additional 20,000,000,000 new ordinary shares of HK\$0.10 each.

In order to strengthen the equity base of the Group and to secure additional cash resources for the business development of the Group, the Company carried out a rights issue of 133,240,043 ordinary shares of HK\$0.10 each for a consideration of HK\$0.21 per share. The rights shares were issued in April 2002 to the existing shareholders, on the basis of one rights share for every five shares then held. The rights shares ranked pari passu with the then existing shares in all respects. Details of the rights issue were set out in the prospectus of the Company dated 19th March, 2002.

In 2001, the Company carried out a right issue of 83,275,027 ordinary shares of HK\$0.10 each, for a consideration of HK\$0.35 per share. The right issue was made on 27th August, 2001 to the existing shareholders, on the basis of one rights share per every seven shares then held. The rights shares ranked pari passu with the then existing shares in all respects. Details of the right issue were set out in the prospectus of the Company dated 27th August, 2001.



#### 14. RESERVES

|   | Share<br>premium<br>HK\$'000 | Hotel<br>property<br>revaluation<br>reserve<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|---|---------------------------------|-----------------------------------|-------------------|
| At 1st January, 2001  | 374,699                      | 41,695  | (56,938)                        | (8,701)                           | 350,755           |
| Exchange adjustments  | —                            | —   | (5)                             | —                                 | (5)               |
| Share premium arising<br>from issue of shares,<br>net of expenses | 19,109                       | —   | —                               | —                                 | 19,109            |
| Deficit on revaluation<br>of hotel properties                     | —                            | (2,441)   | —                               | —                                 | (2,441)           |
| Loss for the year   | —                            | —   | —                               | (5,967)                           | (5,967)           |
| At 31st December, 2001  | 393,808                      | 39,254  | (56,943)                        | (14,668)                          | 361,451           |
| Share premium arising<br>from issue of shares,<br>net of expenses | 13,396                       | —   | —                               | —                                 | 13,396            |
| Profit for the period   | —                            | —   | —                               | 836                               | 836               |
| At 30th June, 2002  | <u>407,204</u>               | <u>39,254</u>   | <u>(56,943)</u>                 | <u>(13,832)</u>                   | <u>375,683</u>    |

The Company had no reserve available for distribution to the shareholders as at 31st December, 2001 and 30th June, 2002.

#### 15. CONVERTIBLE NOTES

In 9th May, 2002, the Group issued HK\$230,000,000 of 1% convertible notes (the "Notes") which are due on 9th May, 2007 (the "Maturity Date") and in units of HK\$1,000,000 each. The Notes are convertible at the discretion of the holders of the Notes, at any time upon the expiry of 6 months from the date of issue of the Notes up to and including its Maturity Date in whole or in part into shares of HK\$0.10 each in the Company at an initial conversion price of HK\$0.27 per share, subject to adjustment.

The Company shall repay such principal moneys outstanding under the Notes to the holders of the Notes on the Maturity Date together with all interest accrued thereon up to and including the maturity date.



## **16. PLEDGE OF ASSETS**

At 30th June, 2002, the Group's investment properties and bank deposits and all accrued interest thereon amounting to HK\$81,600,000 (31st December, 2001: HK\$81,600,000) and HK\$10,840,000 (31st December, 2001: HK\$10,737,000), respectively were pledged to secure banking facilities.

## **17. CAPITAL COMMITMENTS**

At 8th May, the Group was committed to capital expenditure of HK\$5,195,000 for the acquisition of machineries and equipment. The Group had no outstanding capital commitments as at 31st December, 2001.

## **18. ACQUISITION OF SUBSIDIARIES**

On 9th May, 2002, the Group acquired the entire issued share capital of Can Manage Trading Limited ("Can Manage") for a cash consideration of HK\$131,652,000 and a contingent consideration of HK\$48,000,000 which is payable either in cash or by the issue of convertible notes subject to any adjustment or deduction for future events as set out in the circular of the Company dated 20th March, 2002. The Group also acquired from the vendor the unsecured and non-interest bearing loan in the principal amount of HK\$90,348,000 due by Can Manage to the vendor at its book value. Total consideration was HK\$270,000,000.

On 25th June, 2002, the Group acquired the entire issued share capital of Shi Men Properties Limited ("Shi Men") for a consideration of HK\$1 and also acquired from the vendor the unsecured and non-interest bearing loan in the principal amount of HK\$38,519,000 due by Shi Men to the vendor for a consideration of HK\$38,306,000.

The transactions have been accounted for using the purchase method of accounting.





## 18. ACQUISITION OF SUBSIDIARIES - continued

The effect of the acquisitions are summarised as follows:

|   | <i>HK\$'000</i>   |
|---|-------------------|
| Net assets acquired                     | 19,069            |
| Goodwill arising on acquisition         | 112,583           |
|   | <u>          </u> |
| Satisfied by cash consideration         | 131,652           |
|   | <u>          </u> |
| Net cash outflow arising on acquisition |                   |
| Cash consideration                      | (131,652)         |
| Bank balances and cash acquired         | 733               |
|   | <u>          </u> |
|   | <u>(130,919)</u>  |

The subsidiaries acquired during the period contributed HK\$17,149,000 to the Group's turnover, and HK\$7,601,000 to the Group's profit from operations.

## 19. RELATED PARTY TRANSACTIONS

- a) During the period, the Group paid rental expenses amounting to approximately HK\$478,000 (30th June, 2001: Nil) to World Shine Enterprises Limited, in which a substantial shareholder of the Company, Ms. Lu Biru has a beneficial interest. The rental were charged based on the terms of the tenancy agreement agreed between the Group and World Shine Enterprises Limited.



## 19. RELATED PARTY TRANSACTIONS - continued

- b) Two subsidiaries of the Group, Nanhai Jia Shun Timber Company Limited (“Jia Shun”) and Nanhai Heng Da Timber Company Limited (“Heng Da”), have entered into a power supply agreement (the “Agreement”) with Nanhai Hua Guang Decorative Board Company Limited (“Hun Guang”), Nanhai Hua Ying Timber Company Limited (“Hua Ying”), Nanhai Heng Yi Timber Company Limited and Smart Giant Investment Limited in relation to the co-management and co-use of a power plant jointly built by the above parties for the generation of electricity for their own consumption. Pursuant to the Agreement, the quantity of coal used by the power plant in generating electricity for a month is to be shared by the above parties according to the actual amount of electricity consumed by each of the parties for that month. The amount of material costs shared by Jia Shun and Heng Da for their electricity consumed for the six months period ended 30th June, 2002 was HK\$7,697,000. Ms. Lu Biru, a substantial shareholder of the Company, has beneficial interests in Hua Guang and Hua Ying.

Pursuant to the Agreement, Jia Shun and Heng Da are responsible for the following costs relating to the power plant:

Jia Shun is responsible for the supply of land, the building of the power plant and its related ancillary facilities at its own expenses. Such assets with carrying value of HK\$20,312,000 as at 30th June, 2002 belong to Jia Shun with the related depreciation of HK\$104,000 for the period ended 30th June, 2002 borne by Jia Shun.

Jia Shun and Heng Da are responsible to arrange a total of 60 staff for assisting in the daily operations of the power plant. The wages of the staff borne by Jia Shun and Heng Da for the period ended 30th June, 2002 were HK\$67,000.

Heng Da is responsible to share 20% of the repair and maintenance work of the power plant and all facilities, including the renovation of the power plant, and the replacement costs of the spare parts in relation to the routine maintenance of the power plant. No such kind of cost was borne by Heng Da for the period ended 30th June, 2002.