

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Principal accounting policies and basis of preparation

The condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The principal accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those adopted in the annual report for the year ended 31 March 2002, except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The adoption of the above standards had no material effect on amounts reported in the prior period, except that certain presentational changes have been made upon the adoption of SSAP 1 (revised) “Presentation of financial statements” and SSAP 15 (revised) “Cash flow statements”.

### 2. Going concern basis of preparation

Since 1 April 2001, the Group has experienced serious financial difficulties, which inter alia led to a winding up petition in November 2001, the withdrawal of banking facilities and the termination of the PUMA distribution agreement. Substantial provisions have been made for the year ended 31 March 2002 for various transactions, which the present Board of Directors considers that they may not have been in the best interests of the Group. Legal action is in process for possible recovery in connection therewith. To minimise the adverse effects of the above, the Group has taken active steps to streamline the operations, dispose of non-core assets and reduce overheads so as to minimise losses and restore the Group to profitability.

Additionally, the Board has been assured by China Chengtong Holdings Company, a state-owned pillar enterprise in the PRC and the ultimate holding company of World Gain Holdings Limited (the new controlling shareholder in the Company) that it will provide continuing financial support to the Company and the Group.

The Board has taken and will continue to take additional measures to improve its cash flows by increasing the productivity of its cement factory in Suzhou, utilising leasing areas both in Hong Kong and in China for additional rental income, procuring further realisation of non-core assets, streamlining the operations and reducing operating expenses.

In every respect, the present Board is confident that the cash flows over the next 12 months from the date of these financial statements will be sufficient to confirm that the Group can continue as a going concern.

### 3. Segment information

An analysis of the Group's turnover and results for the period by principal activities is as follows:

	<b>Six months ended 30 September</b>			
	<b>Turnover</b>		<b>Segment results</b>	
	<b>2002 (Unaudited) HK\$'000</b>	2001 (Audited) HK\$'000	<b>2002 (Unaudited) HK\$'000</b>	2001 (Audited) HK\$'000
<i>By principal activities</i>				
Sales of goods	<b>62,821</b>	93,210	<b>(1,455)</b>	(1,737)
Property investment	<b>3,463</b>	8,557	<b>(392)</b>	(25,901)
Heating supply technical services	-	-	<b>(2)</b>	(11)
Investment holding	<b>3</b>	133	<b>(253)</b>	(17,886)
E-commerce – internet services	-	-	-	(6,438)
Unallocated expenses	-	-	<b>(12,287)</b>	(14,971)
	<b><u>66,287</u></b>	<b><u>101,900</u></b>	<b><u>(14,389)</u></b>	<b><u>(66,944)</u></b>
Impairment loss of intangible assets			-	(428,999)
Provision for CNCC Acquisition			-	(232,620)
Provision for doubtful debts			-	(375,238)
Operating loss			<b>(14,389)</b>	(1,103,801)
Finance costs			<b>(2,251)</b>	(8,955)
Share of losses of associates			-	(5,552)
Loss before taxation			<b>(16,640)</b>	(1,118,308)
Taxation			<b>(40)</b>	(1)
Minority interests			<b>(387)</b>	(4,639)
Loss attributable to shareholders			<b><u>(17,067)</u></b>	<b><u>(1,122,948)</u></b>

### 3. Segment information (Continued)

An analysis of the Group's turnover and results for the period by geographical segments is as follows:

	Six months ended 30 September			
	Turnover		Segment results	
	2002 (Unaudited) HK\$'000	2001 (Audited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Audited) HK\$'000
<i>By geographical segments</i>				
Hong Kong	10,763	25,184	5,253	(5,678)
Mainland China	41,227	53,982	(2,718)	(46,387)
Taiwan	14,297	22,734	(4,637)	92
Unallocated expenses	-	-	(12,287)	(14,971)
	<u>66,287</u>	<u>101,900</u>	<u>(14,389)</u>	<u>(66,944)</u>
Impairment loss of intangible assets			-	(428,999)
Provision for CNCC Acquisition			-	(232,620)
Provision for doubtful debts			-	(375,238)
Operating loss			(14,389)	(1,103,801)
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Share of losses of associates			-	(5,552)
Loss before taxation			(16,640)	(1,118,308)
Taxation			(40)	(1)
Minority interests			(387)	(4,639)
Loss attributable to shareholders			<u>(17,067)</u>	<u>(1,122,948)</u>

### 4. Operating loss

The operating loss is arrived at after charging/(crediting) the following:

	Six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Audited) HK\$'000
Amortisation of intangible assets	-	13,000
Deficit on revaluation of investment properties	-	27,236
Depreciation	4,110	1,701
Interest income	(3)	(133)
Loss on disposal of investment properties, including expenses	<u>2,021</u>	<u>-</u>

## 5. Finance costs

	Six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Audited) HK\$'000
Interest and similar charges on:		
Bank loans and overdrafts wholly repayable within five years	1,222	4,504
Other loans	1,029	4,451
	<u>2,251</u>	<u>8,955</u>

## 6. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period in Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 September	
	2002 (Unaudited) HK\$'000	2001 (Audited) HK\$'000
Company and subsidiaries		
– Hong Kong profits tax	40	–
– Overseas profits tax	–	–
Share of taxation attributable to associates		
– Hong Kong profits tax	–	1
– Overseas profits tax	–	–
	<u>40</u>	<u>1</u>

## 7. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$17,067,000 (2001: loss of HK\$1,122,948,000) and on the weighted average number of 1,464,736,116 (2001: 1,458,773,001) ordinary shares in issue during the period.

No diluted loss per share for the periods ended 30 September 2002 and 2001 have been shown as the exercise of options and the conversion of the mandatory convertible note would have no dilutive effect on the basic loss per share.

## 8. Intangible assets

	<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Audited) HK\$'000
Cost	519,999	519,999
Accumulated amortisation	<u>(519,999)</u>	<u>(519,999)</u>
Net book value	<u>—</u>	<u>—</u>

Intangible assets represent the fair value of future distributions in relation to the Heat Supply Project, for which full provision has been made up to 31 March 2002 (For more details, please refer to the 2002 annual report).

## 9. Investment properties

The investment properties were revalued on the basis of their open market value at 15 and 31 March 2002 by David C. Lee Surveyors Ltd, a firm of independent professional valuers. Investment properties in Hong Kong and overseas with an aggregate carrying value of HK\$80,000,000 and HK\$3,929,000 respectively (31 March 2002: HK\$169,600,000 and HK\$3,929,000 respectively) have been pledged as securities for the Group's borrowings and bank loans. During the period, investment properties in Hong Kong with an aggregate carrying value of HK\$89,600,000 were disposed of and the sales proceeds were used in part to settle the Group's secured bank loans and the remaining portion to provide for additional working capital of the Group.

## 10. Interest in associate

The interest in associate held by the Group is a 32% interest in Goodwill (Overseas) Limited ("Goodwill"), incorporated in the British Virgin Islands. Goodwill has lent HK\$606,000,000 to a company called Kingdom Land Investment & Development Co. Limited ("Kingdom Land"), which is incorporated in the Macau Special Administrative Region. Kingdom Land has a 95% interest in Shanghai Xing Tai Real Estate Development Incorporation Limited ("Xing Tai"), which is incorporated in the PRC. Xing Tai holds a 100% interest in Shanghai East Ocean Centre Phase II.

The proforma balance sheet of associate according to its management accounts is as follows:

	<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Unaudited) HK\$'000
Long term investments	606,467	614,265
Current assets		
Other receivables	726	726
Current liabilities		
Other payables	<u>(961)</u>	<u>(561)</u>
Net current (liabilities)/assets	(235)	165
Non-current liabilities		
Shareholders' loans	<u>(608,705)</u>	<u>(616,505)</u>
Net liabilities	<u>(2,473)</u>	<u>(2,075)</u>
Group's share of net liabilities	<u>(791)</u>	<u>(664)</u>

A doubtful debt provision of HK\$127,000 (included in other operating expenses in the condensed consolidated profit and loss account) was made against the loan to the associate as at 30 September 2002, based on the Group's share of its net liabilities.

## 11. Trade and other receivables

		<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Audited) HK\$'000
	<i>Note</i>		
Trade receivables	(a)	11,642	18,123
Prepayments and deposits – net	(b)	2,055	6,343
Other receivables – net	(c)	20,403	16,457
		<u>34,100</u>	<u>40,923</u>

## (a) Trade receivables

The Group conducts its business by accepting letters of credit from customers and allowing certain credit period to its customers. The Group allows an average credit period of 60 days to its trade customers on open account credit terms. The ageing analysis of the trade receivables at 30 September 2002 is as follows:

	<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Audited) HK\$'000
Current	7,599	15,651
One to three months	2,665	1,696
Over three months	1,378	776
	<u>11,642</u>	<u>18,123</u>

## (b) Prepayments and deposits – net

A provision of HK\$232,657,000 (31 March 2002: HK\$232,657,000) has been made against payments of HK\$200,000,000 made to Sharp Class International Limited and interest receivable, temporary advance and deferred expenses in the total amount of HK\$32,657,000 (For more details, please refer to the 2002 annual report).

## (c) Other receivables – net

A provision of HK\$391,248,000 (31 March 2002: HK\$391,248,000) has been made against receivables, of which HK\$358,445,000 (31 March 2002: HK\$358,445,000) was made against payments to Sharp Class International Limited (For more details, please refer to the 2002 annual report).

12. Trade and other payables

	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Trade payables	29,759	26,557
Deposits received, other payables and accruals	<u>67,991</u>	<u>86,671</u>
	<u><u>97,750</u></u>	<u><u>113,228</u></u>

The ageing analysis of the trade payables at 30 September 2002 is as follows:

	30 September 2002 (Unaudited) HK\$'000	31 March 2002 (Audited) HK\$'000
Current	5,027	6,114
One to three months	455	517
Over three months	<u>24,277</u>	<u>19,926</u>
	<u><u>29,759</u></u>	<u><u>26,557</u></u>

13. Share capital

	Ordinary shares of HK\$0.10 each 31 March 2002 (Audited)	
	Number of shares '000	Amount HK\$'000
Authorised		
31 March 2001 and 31 March 2002	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid		
1 April 2001	1,456,855	145,685
Exercise of options	<u>6,850</u>	<u>685</u>
31 March 2002	<u><u>1,463,705</u></u>	<u><u>146,370</u></u>

## 13. Share capital (Continued)

	Ordinary shares of HK\$0.10 each 30 September 2002 (Unaudited)	
	Number of shares '000	Amount HK\$'000
Authorised		
31 March 2002 and 30 September 2002	<u>5,000,000</u>	<u>500,000</u>
Issued and fully paid		
1 April 2002	1,463,705	146,370
Exercise of options	<u>1,700</u>	<u>170</u>
30 September 2002	<u>1,465,405</u>	<u>146,540</u>

## 14. Reserves

	Investment properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Share premium HK\$'000	Total HK\$'000
1 April 2001	2,934	743	44,942	402	293,176	654,052	996,249
Loss attributable to shareholders	-	-	-	-	(1,395,038)	-	(1,395,038)
Issue of new shares upon exercise of options	-	-	-	-	-	336	336
Share issue expenses	-	-	-	-	-	(1)	(1)
Disposal of associates	-	(333)	-	-	-	-	(333)
Transfer	-	-	(44,942)	-	44,942	-	-
Deficit on revaluation	<u>(2,934)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,934)</u>
31 March 2002	-	410	-	402	(1,056,920)	654,387	(401,721)
Loss attributable to shareholders	-	-	-	-	(17,067)	-	(17,067)
Issue of new shares upon exercise of options	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84</u>	<u>84</u>
30 September 2002	<u>-</u>	<u>410</u>	<u>-</u>	<u>402</u>	<u>(1,073,987)</u>	<u>654,471</u>	<u>(418,704)</u>



**15. Mandatory convertible note**

The mandatory convertible note (“Note”) is redeemable at the Company’s option at par value before its maturity. Any principal amount of the Note outstanding on maturity will be mandatorily converted into shares of the Company at a conversion rate of HK\$1.40 per share. The Note dated 27 April 2001 was issued to United City Trading Limited (“Noteholder”). The maturity date of the Note was extended from 27 April 2001 to 27 April 2002 by an ordinary resolution passed at the extraordinary general meeting of the Company held on 5 June 2001. At the time of the extension of the maturity date, the Company was advised that the Noteholder was wholly owned by Huatong Group Holdings Limited (“Huatong”). On 23 April 2002, Huatong brought to the notice of the Company that the ownership of the Noteholder is subject to dispute and demanded in writing on 26 April 2002 that the Company withheld allotting and issuing the conversion shares to the Noteholder, failing which the Company would be held responsible for Huatong’s losses and damages. On 29 April 2002, however, the Noteholder instructed the Company to allot and issue the conversion shares to a third party. The Company has withheld the allotment and issuance of the conversion shares pending resolution of such dispute. On 18 December 2002, the Company was advised that the dispute has been settled.

**16. Contingent liabilities**

	<b>30 September 2002 (Unaudited) HK\$’000</b>	31 March 2002 (Audited) HK\$’000
Litigation	<u><b>4,844</b></u>	<u>4,844</u>

The litigation represents the maximum contingent liability of the Group estimated by the Directors in respect of a claim lodged against a subsidiary of the Company. The Directors, based on the advice of the Group’s legal advisors, considered that the Group has a good defence against the alleged claim and accordingly did not make any provision for liabilities in respect of the claim for the period.

## 17. Commitments

### (a) Capital commitments

At 30 September 2002, the Group did not have any significant capital commitments (31 March 2002: nil).

### (b) Commitments under operating leases

At 30 September 2002, the Group had future minimum lease payments payable under non-cancellable operating leases in respect of land and buildings as follows:

	<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Audited) HK\$'000
Operating leases which fall due:		
Within one year	3,349	3,886
In the second to fifth years inclusive	<u>104</u>	<u>1,768</u>
	<u><u>3,453</u></u>	<u><u>5,654</u></u>

### (c) Operating leases arrangements

At 30 September 2002, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of land and buildings owned by the Group as lessor as follows:

	<b>30 September 2002 (Unaudited) HK\$'000</b>	31 March 2002 (Audited) HK\$'000
Operating leases which fall due:		
Within one year	3,281	4,255
In the second to fifth years inclusive	<u>2,819</u>	<u>6,012</u>
	<u><u>6,100</u></u>	<u><u>10,267</u></u>

## 18. Significant post balance sheet events

- (a) The Company has on 4 November 2002 commenced legal actions against Sharp Class International Limited ("Sharp Class"), Mr. Yuen Wai and Mr. Chung Ho for the recovery of HK\$50,000,000 due from Sharp Class.
- (b) Trading in the shares of the Company has been resumed with effect from 9:30 a.m. on 9 December 2002.
- (c) Completion of the Share Sale Agreement took place on 11 December 2002, upon which World Gain Holdings Limited ("WGH") acquired from ABN AMRO Bank N.V. Hong Kong Branch ("ABN AMRO") a total of 608,201,500 shares, at a consideration of HK\$0.09 each for a cash of HK\$54,738,135, representing approximately 41.50% of the existing issued share capital of the Company. The consideration for the Sale Shares had been fully paid on the date of the completion.
- (d) On 18 December 2002, the Company received a letter from the solicitors acting for Huatong Group Holdings Limited ("Huatong") informing the Company that the dispute over the beneficial ownership of United City Trading Limited ("United City") has been settled and Huatong now holds the beneficial interest in United City. Following the settlement of the dispute, the Company is obliged to issue 219,000,000 shares in the Company to United City as soon as possible pursuant to the Mandatory Convertible Note dated 27 April 2001.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend.

## MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September 2002, the interim consolidated loss attributable to shareholders was HK\$17,067,000 compared with the loss of HK\$1,122,948,000 for the corresponding period of 2001. The loss in the six months ended 30 September 2001 was significantly affected by the provision of HK\$428,999,000, HK\$232,620,000 and HK\$358,445,000 for the Heat Supply Project, the CNCC Acquisition and the advance to Sharp Class International Limited ("Sharp Class") respectively. The decrease in turnover from HK\$101,900,000 compared to HK\$66,287,000 was due to the cessation in trading of P & G products and Puma products and the disposal of investment properties.

During the interim period ended 30 September 2002, the Board faced the most turbulent time and unpredictable events in its history since its incorporation. The Board had devoted substantial attention and resources to deal with these events and had appointed appropriate professionals to investigate certain of the events to ensure that the interests of the shareholders are protected.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

The significant events during this interim period were:

- (1) Huatong Group Holdings Limited, through its solicitors, notified the Company on 23 April 2002, that the beneficial ownership of the Mandatory Convertible Note of HK\$306,600,000 was in dispute and has demanded in writing on 26 April 2002 that the Company to withhold allotting and issuing the conversion shares of 219,000,000 to the noteholder. The noteholder has on 29 April 2002 instructed the Company to allot and issue the conversion shares. The Company was informed on 18 December 2002 that the dispute over the ownership of the Mandatory Convertible Note has now been settled and 219,000,000 shares in the Company will be issued under the Mandatory Convertible Note in the near future.
- (2) PUMA, the licensor, terminated the licensing agreement for PUMA products on 15 May 2002. By a settlement agreement dated 18 September 2002, the Group agreed, inter alia, to settle the outstanding royalty payments of US\$310,000 by installments and the final payment was made in November 2002.
- (3) Mr. Yuen Wai, who had been the Chairman of the Company since October 1997, suddenly resigned on 28 May 2002.
- (4) ABN AMRO Bank N.V. Hong Kong Branch ("ABN AMRO"), as mortgagee, had entered into two agreements on 24 May 2002 and 27 May 2002 with two independent parties for the sale of 413,000,000 and 95,201,500 shares of the Company, representing in aggregate approximately 35% of the issued share capital of the Company. ABN AMRO informed the Company on 2 September 2002 that the two conditional agreements were terminated on 30 August 2002.
- (5) The Board appointed Deloitte Touche Tohmatsu ("DTT") on 22 July 2002 to investigate into the Heat Supply Project of HK\$429,000,000 and originally expected the report on the Heat Supply Project from DTT be ready by 31 December 2002. However, DTT recently advised the Board that the report will not be ready by 31 December 2002, as all the relevant documents as requested by DTT not readily available. The Company has great difficulties in getting all the relevant documents.
- (6) The resignation of Mr. Wu Yuehua as a non-executive director on 27 August 2002.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)** \_\_\_\_\_

- (7) One executive director and two independent non-executive directors were appointed at the purported board meeting on Sunday, 4 August 2002 and then resigned on 13 August 2002 after the Company commenced legal proceedings on 10 August 2002 against the three directors, Mr. Chung Ho and Mr. Wu Yuehua claiming inter alia that the appointments were invalid.
- (8) Deloitte & Touche Corporate Finance Limited issued the limited reviewed report on 5 August 2002 on the CNCC Acquisition of HK\$233,000,000 and the advances made to Sharp Class.
- (9) The Directors have reported the irregular transactions to the relevant regulatory authorities, including the Commercial Crimes Bureau, and believe that the enquiries by the regulatory authorities are continuing. The Group has cooperated in these enquiries and will continue to do so.
- (10) The Group commenced a legal action in Hong Kong in September 2002 against (1) Sharp Class to recover HK\$308,000,000 paid to Sharp Class and (2) Mr. Lo Chu Kong, a former executive of a subsidiary who approved the payments to Sharp Class.
- (11) A Share Sale Agreement was entered into between ABN AMRO and World Gain Holdings Limited ("WGH") on 30 September 2002. Pursuant to the Share Sales Agreement, ABN AMRO has agreed to sell and WGH has agreed to purchase 608,201,500 shares at a consideration of HK\$54,738,135, representing approximately 41.5% of the existing issued share capital of the Company. WGH has announced that it will make a cash offer to acquire shares in the Company at HK\$0.0904 per share.
- (12) The trading in the Company's shares on the Stock Exchange was suspended from 28 May 2002 and was resumed from 9:30 a.m. on 9 December 2002.