

NOTES TO INTERIM FINANCIAL STATEMENTS

30 June 2001

1. ACCOUNTING POLICIES

Basis of preparation

The Group Reorganisation involved companies under common control. Because the Group Reorganisation took place on 4 April 2001, according to the Statement of Standard Accounting Practice (“SSAP”) No. 2.127, “Accounting for Group Reconstructions”, the Company together with its subsidiaries should only be regarded and accounted for as a continuing group in the preparation of the Group’s financial statements commencing the period ended 30 June 2001. Nevertheless, for the benefit of shareholders, pro forma combined results of the Group for the six months period ended 30 June 2000 and the related notes thereto have also been presented in these financial statements on the basis that the Company was treated as the holding company of its subsidiaries for the financial periods presented rather than from the subsequent date of acquisition of the subsidiaries on 4 April 2001. The pro forma combined results of the Group for the six months period ended 30 June 2000 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, where this is a shorter period. The pro forma combined balance sheets as at 31 December 2000 has been prepared on the basis that the current Group structure was in place at those dates.

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountant, except that the comparative figures of the condensed consolidated cash flow statement and condensed consolidated statement of recognised gains and losses have not been presented as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong.

The accounting policies and basis of presentation used in the preparation of the interim financial statements are consistent with those used in the Group’s pro forma audited financial statements for the year ended 31 December 2000.

2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations are summarised as follows:

For the six months ended 30 June				
	Turnover		Contribution to loss from operating activities	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Pro forma unaudited)	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Pro forma unaudited)
By activity:				
Manufacture and sale of electronic products	842	1,548	36	233
Manufacture and sale of plywood and other wood products	262	–	(2,969)	–
Manufacture and sale of cement	78,392	52,448	16,461	10,295
Property investment	–	–	(7,949)	596
Investment holding	–	–	(40,567)	(439,905)
	<u>79,496</u>	<u>53,996</u>	<u>(34,988)</u>	<u>(428,781)</u>
By geographical area:				
The People's Republic of China ("PRC"):				
Hong Kong	–	4	(38,781)	(441,093)
Elsewhere	842	1,544	484	(94)
	<u>842</u>	<u>1,548</u>	<u>(38,297)</u>	<u>(441,187)</u>
Vietnam	78,654	52,448	3,309	12,406
	<u>79,496</u>	<u>53,996</u>	<u>(34,988)</u>	<u>(428,781)</u>

3. OTHER REVENUE

	For the six months ended 30 June	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Pro forma unaudited)
Dividend income from other investment	2,416	—
Gross rental income	4,028	5,251
Interest income	8,178	10,200
Others	134	1,643
	<u>14,756</u>	<u>17,094</u>

4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Pro forma unaudited)
Depreciation:		
Owned assets	10,309	11,741
Assets held under finance leases	182	—
	<u>10,491</u>	<u>11,741</u>
Cost of inventories sold	48,123	32,659
Salary and wages expenses (include directors' remuneration)	8,220	16,216
Provision against interests in associates	2,225	—
Provision for impairment in investment security	2,340	—
Net rental income	<u>(3,622)</u>	<u>(4,966)</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Pro forma unaudited)
Interest expense on:		
Bank loans and overdrafts repayable within five years	3,278	6,249
Loans repayable within five years from:		
Directors	183	352
Related company	—	1,979
Others	—	5,432
Guaranteed notes	—	1,116
Finance leases	16	51
	<u>3,477</u>	<u>15,179</u>

6. TAX

	For the six months ended 30 June	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Pro forma unaudited)
Hong Kong profits tax charge for the period	<u>—</u>	<u>37</u>

No Hong Kong and overseas profits tax had been provided as the Group had no assessable profit arisen in or derived from Hong Kong and elsewhere during the period. Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the period of 2000.

There were no significant potential deferred tax liabilities for which provision had not been made.

7. DIVIDEND

The Board has resolved to declare an interim dividend of 8 cents per ordinary share in issue in respect of the six months ended 30 June 2001 (2000: Nil) payable on 22 October 2001 to shareholders where names are on the Registers of Members on 15 October 2001.

8. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$48,864,000 (2000: pro forma net loss of HK\$453,337,000) and the weighted average of 332,580,740 (2000: pro forma weighted average of 341,339,134) ordinary shares in issue during the period.

The diluted loss per share for the six months period ended 30 June 2001 and 2000 and have not been calculated as the company's warrants would have resulted in an anti-dilutive effect.

9. OTHER INVESTMENTS

	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Pro forma audited)
At fair value:		
Listed equity investments in PRC:		
Hong Kong	90,281	178,000
Elsewhere	32,034	32,034
	122,315	210,034

The Group's other investment listed in elsewhere of the PRC represents its B shares held in Shenzhen Huafa Electronics Co. Ltd. ("the Huafa Shares"). The Huafa Shares were founder shares which were originally not publicly tradable. On 1 June 2001, the Group was being informed that the relevant PRC authority has uplifted the restriction and thus the Huafa Shares become publicly tradable. However, as a result of a civil proceedings in the PRC, the Huafa Shares have been frozen by the PRC court as security pending the results of the proceedings. Accordingly, the Group has treated the fair value of the Huafa Shares as at 30 June 2001 as its book cost instead of according to its market value as at 30 June 2001.

9. OTHER INVESTMENTS (continued)

Further details of the proceedings are set out in note 14 and the announcement dated 4 June 2001.

The market value of the other investments listed in Hong Kong at the date of approval of these financial statements was approximately HK\$46,676,000.

10. TRADE RECEIVABLES

The trade receivables aging analysis are as follows:

	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Pro forma audited)
0 – 30 days	7,824	3,462
31 – 60 days	2,633	189
61 – 90 days	1,401	425
Over 120 days	7,243	–
Over 1 year	175	–
	19,276	4,076

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

11. TRADE PAYABLES

The trade payables aging analysis are as follows:

	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Pro forma audited)
0 – 30 days	4,012	2,718
31 – 60 days	926	462
61 – 90 days	88	346
Over 120 days	131	650
Over 1 year	27,650	27,217
	32,807	31,393

12. COMMITMENTS

At the balance sheet date, the following capital commitments were outstanding:

	30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Pro forma audited)
Capital commitments	—	1,084
Capital contributions to:		
Associates	3,218	3,218
Jointly-controlled entities	—	66,061
	3,218	69,279
Total capital commitments	3,218	70,363

13. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

		For the six months ended 30 June	
	Notes	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Pro forma unaudited)
Jointly-controlled entity:			
Interest income	(i)	<u>7,042</u>	<u>9,465</u>
Investee companies:			
Sales of raw materials	(ii)	117	369
Purchases of finished goods	(iii)	590	1,022
Interest expense	(iv)	<u>–</u>	<u>1,979</u>
Directors:			
Interest expense	(v)	<u>183</u>	<u>352</u>

Notes:

- (i) Interest income was charged to the Group's jointly-controlled entity for loans advanced to a jointly-controlled entity at 7% per annum.
- (ii) Sales of raw materials to investee companies were charged at cost plus a margin.
- (iii) Purchases of finished goods from investee companies was made according to the prices negotiated between the parties.
- (iv) Loans advanced from investee company bore interest at the rate of 2% over the Hong Kong prime rate.
- (v) Interest expense was paid to the directors on the amounts due to them at the rate of 1.5% (2000: 2.75%) over the Hong Kong prime rate.

14. CONTINGENT LIABILITY

The Group received a claim of approximately RMB30,000,000 (approximately HK\$28,037,000) from Grand Effort Holdings Limited, in a civil proceedings in relation to the disposal of Luks Property Ltd. As a result of the proceedings, the Group's investment in Huaafa Shares have been frozen by the PRC Court. Based on the advise of the Group's PRC lawyers, the directors are of the view that the Group has a good defence and is unlikely to be liable to the claim.

Further details of the proceedings are set out in the announcement dated 4 June 2001.

15. POST BALANCE SHEET EVENT

On 15 September 2001, the wholly-owned subsidiary of the Group entered into a transfer agreement for the acquisition of the remaining 25% equity interest in Luks Lavico Company Limited from its minority shareholder for a cash consideration of approximately HK\$11,895,000.

16. COMPARATIVE AMOUNTS

The presentation and classification of bank charges has been reclassified from finance costs to other operating expenses to conform with the current period's presentation.

17. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the board of directors on 25 September 2001.