

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2000

1. BASIS OF PRESENTATION

The condensed financial statements have been prepared under the historical cost convention.

The condensed financial statements have been prepared in accordance with the requirements of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants except that, in this first year of implementation of the Standard, as permitted by the Listing Rules, no comparative figures have been presented for the condensed consolidated cash flow statement.

The accounting policies adopted are consistent with those used in the preparation of the Group's most recent published audited annual financial statements for the year ended 30 June 2000.

2. SEGMENTAL INFORMATION

The Group is principally engaged in property investment in Hong Kong and Mainland China. An analysis of the Group's turnover and contribution to results by principal activities and by geographical locations is set out below:

	Turnover		Contribution to results	
	Six months ended		Six months ended	
	31 December		31 December	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By Principal Activities:				
Property investment	<u>6,472</u>	<u>8,883</u>	<u>6,202</u>	<u>8,420</u>
Unallocated corporate expenses			<u>(16,701)</u>	<u>(17,322)</u>
Loss from operations			<u>(10,499)</u>	<u>(8,902)</u>

2. SEGMENTAL INFORMATION (continued)

	Turnover		Contribution to results	
	Six months ended		Six months ended	
	31 December		31 December	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By Geographical Locations:				
The People's Republic of China				
– Hong Kong	2,089	4,539	1,999	4,161
– Mainland China	4,383	4,344	4,203	4,259
	<u>6,472</u>	<u>8,883</u>	<u>6,202</u>	<u>8,420</u>
Unallocated corporate expenses			(16,701)	(17,322)
Loss from operations			<u>(10,499)</u>	<u>(8,902)</u>

3. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Six months ended	
	31 December	
	2000	1999
	HK\$'000	HK\$'000
Depreciation	236	302
Interest on borrowings	<u>7,496</u>	<u>5,783</u>

4. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately HK\$17,995,000 for the six months ended 31 December 2000 (1999: a loss of approximately HK\$14,685,000).

5. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the current and the last corresponding period.

6. INTERIM DIVIDEND

The Board of Directors does not recommend to declare any interim dividend for the six months ended 31 December 2000 (1999: Nil).

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$17,995,000 (1999: HK\$14,685,000) and on the weighted average of 222,600,000 (1999: 210,100,000) shares in issue during the period.

No diluted loss per share has been presented because the exercise of the Company's outstanding share options would have an anti-dilutive effect on loss per share for the current period and, there was no outstanding share options in the corresponding period in last year.

8. INVESTMENT AND OTHER PROPERTIES

The Group's investment properties were revalued by FPD Savills (Hong Kong) Limited, an independent firm of professional valuers, on an open market existing use basis as at 30 June 2000 at HK\$177,800,000.

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables as at 31 December 2000 are trade debtors of approximately HK\$5,209,000 (1999: Nil) which represents rentals receivable from letting of the Group's investment properties and billed in advance of the rental period. The aging analysis of trade debtors as at 31 December 2000 is as follows:

	31 December 2000 HK\$'000	30 June 2000 HK\$'000
0-3 months	3,017	—
4-6 months	2,192	—
7-9 months	—	—
Over 9 months	—	—
	<hr/> 5,209 <hr/>	<hr/> — <hr/>

10. SECURED BANK AND OTHER BORROWINGS

	31 December 2000 HK\$'000	30 June 2000 HK\$'000
<i>The bank borrowings are repayable as follows:</i>		
Within one year or on demand	33,122	33,362
More than one year, but not exceeding two years	2,005	1,880
More than two years, but not exceeding five years	7,787	7,309
More than five years	12,218	13,731
	55,132	56,282
<i>The other borrowings are repayable as follows:</i>		
Within one year or on demand	35,252	45,252
Total bank and other borrowings	90,384	101,534
Amounts repayable within one year or on demand and shown under current liabilities	(68,374)	(78,614)
Amounts repayable after one year	22,010	22,920

As at 31 December 2000, the Group's investment properties were pledged to secure bank and other loans granted to the Group.

11. SHARE CAPITAL

	Number of shares		Total value	
	31 December 2000 (‘000)	30 June 2000 (‘000)	31 December 2000 HK\$‘000	30 June 2000 HK\$‘000
Authorised:				
Ordinary shares of HK\$1 each	400,000	400,000	400,000	400,000
Issued and fully paid:				
At beginning of period/year	210,100	210,100	210,100	210,100
New issue of shares	20,000	–	20,000	–
At end of period/year	230,100	210,100	230,100	210,100

On 22 August 2000, the Company issued 20,000,000 ordinary shares of HK\$1.00 each by way of placement at a price of HK\$1.50 per share, and the premium arising therefrom of approximately HK\$10,000,000 has been credited to the share premium account. The net proceeds from the placement of approximately HK\$29,000,000 were used to reduce the indebtedness level of the Group and to provide additional working capital for the Group. All the new ordinary shares issued during the period rank pari passu in all respects with the then existing shares in issue.

12. SHARE OPTIONS SCHEME

Pursuant to the share options scheme (the “Scheme”) adopted by the Company on 19 July 1999, the board of directors of the Company may grant options to any directors, officers or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at any price but not less than the nominal value of the shares nor 80% of the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

12. SHARE OPTIONS SCHEME (continued)

A summary of the share options granted under the Scheme during the year ended 30 June 2000 and outstanding at 30 June 2000 and at 31 December 2000 is as follows:-

Date of grant	Number of share to be issued upon exercise of the share options	Exercisable period	Exercise price per share HK\$
February 2000	20,653,000	22 February 2000 to 21 February 2010	1.47
March 2000	200,000	22 March 2000 to 21 March 2010	1.59
April 2000	100,000	28 April 2000 to 27 April 2010	1.40

13. RESERVES

	Share Premium HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
At 1 July 2000	38,833	(30,235)	8,598
Issue of shares at a premium	10,000	—	10,000
Net loss for the period	—	(17,995)	(17,995)
At 31 December 2000	48,833	(48,230)	603

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

14. CONTINGENT LIABILITIES

	31 December 2000 HK\$'000	30 June 2000 HK\$'000
Guarantees given to banks in respect of banking facilities granted to a former subsidiary	61,950	61,950

The credit facilities amounting to approximately HK\$61,950,000 (at 30 June 2000: HK\$61,950,000) granted by certain banks to Jilin Motor City Park Hotel Company Limited ("Jilin"), a former subsidiary of the Company, are secured by a corporate guarantee provided by the Company and by a charge over certain investment properties of the Group with an aggregate net book value of approximately HK\$83,300,000 (at 30 June 2000: HK\$83,300,000) as at 31 December 2000. According to the latest bank advices available to the Company, the outstanding borrowings of Jilin under the above credit facilities amounted to approximately HK\$51,260,000 as at 30 October 2000. A counter-indemnity from Amsteel and two of its subsidiary companies (collectively, the "Amsteel Guarantors") was

obtained by the Company. According to the latest financial information of Amsteel available to the directors of the Company, Amsteel and its subsidiaries (collectively, the "Amsteel Group") have not serviced some of their principal borrowings and interest charges and are in the process of implementing a scheme involving, among other measures, the restructuring of the debts of Amsteel Group. In addition, the Amsteel Group is presently re-negotiating with its bankers to extend the repayment of existing term loans. On the basis that the Amsteel Group can successfully implement its debt restructuring schemes, the directors of the Company are satisfied that the Amsteel Guarantors can honour their obligations to the Group under the above counter-indemnity in the event of Jilin's default in repayment of the relevant borrowings. On this basis, no provision has been made in the financial statements for any liabilities which may arise from the above security given by the Group.

15. CONNECTED TRANSACTIONS AND MATERIAL RELATED PARTY DISCLOSURES

During the interim reporting period, the Group had entered into transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:-

- (a) The credit facilities utilised by the Group of approximately HK\$10,252,000 are secured by, inter-alia, a corporate guarantee provided by CIL Holdings Limited ("CILH") and personal guarantees from two retired directors.
- (b) On 10 December 1997, a management agreement was entered into between Yellow Star Limited ("Yellow Star"), a related company of China Real Estate Development Group Huadong Properties Company Limited ("CRED Huadong") and Welchem Development Limited, a wholly-owned subsidiary of the Company. Pursuant to management agreement, Yellow Star agreed to guarantee an annual return of not less than HK\$11,380,000 for three consecutive years upon completion of the construction of the properties. The directors considered the rate of return to be comparable with the then approximate market yield. The guaranteed period has not commenced in current period as the construction of properties has not yet been completed. The construction is scheduled to be completed in December 2001.
- (c) On 29 October 1997, a sale and purchase agreement was entered into between World Joy Limited ("World Joy"), a wholly-owned subsidiary of the Company and CRED Huadong for the acquisition of certain investment properties from CRED Huadong for which deposits in the aggregate amount of approximately HK\$27 million have been paid up to the balance sheet date. Pursuant to the sale and purchase agreement, CRED Huadong agreed to guarantee to World Joy an annual return on the investment in the properties in the sum of approximately HK\$2.7 million for three consecutive years commencing from 60 days after the land use rights and building ownership certificates have been obtained. The directors considered the rate of return to be comparable with the then approximate market yield. The guaranteed

period has not commenced in current period as the land use rights and building ownership certificates have not yet been obtained. A full provision for the above deposits has been made in the year ended 30 June 2000.

- (d) On 5 November 1997, a sale and purchase agreement was entered into between World Giant Limited (“World Giant”), a wholly-owned subsidiary of the Company, and Beijing Liyehang Tradings Limited Company 北京利業行商貿有限責任公司 (“Beijing Liyehang”), a substantial shareholder of CILH as at 30 June 1999, for the acquisition of certain investment properties by World Giant with a carrying value of HK\$94.5 million at the balance sheet date. Pursuant to the sale and purchase agreement, Beijing Liyehang guaranteed to World Giant an annual return on the investment in the properties of not less than approximately HK\$8.5 million, HK\$8.9 million and HK\$9.3 million for the first three years commencing from 60 days after the land use rights and building ownership certificates have been obtained. The directors considered the rate of return to be comparable with the then approximately market yield.

16. POST BALANCE SHEET EVENTS

The following significant events occurred subsequent to the balance sheet date:-

- (a) On 31 July 2000, an Option Agreement was entered into by the Group and CeCommerce Limited to acquire an additional 20% equity interest in China eCommerce (Hong Kong) Limited at a consideration of HK\$20,000,000. The Option Agreement was exercisable on or before 31 December 2000 which was then extended to 30 April 2001.
- (b) On 13 November 2000, an agreement was entered into by Grandright Technology Limited, a wholly-owned subsidiary of the Company and certain independent third parties to acquire a 55% equity interest in Zhu Hai Zaichuang Technology Company Limited 珠海再創通信技術有限公司 (“Zaichuang”), a private-owned enterprise established in the PRC, at a consideration of HK\$33,000,000. Zaichuang is engaged in the production and sales of equipment accessories for broadband cable television. The consideration will be satisfied by a cash payment of HK\$3,000,000 and issue of 20,000,000 new shares of HK\$1 each in the Company at a price of HK\$1.5 per share. Pursuant to the supplemental agreements, the long stop date of the transaction has been extended to 6 April 2001. The transaction is scheduled to be completed in late April 2001.
- (c) On 12 February 2001, an agreement was entered into between Cybervation Group Limited, a wholly-owned subsidiary of the Company incorporated subsequent to the balance sheet date, and certain independent third parties, to purchase a 20% equity interest in CRED.net Limited (“CRED.net”), a company incorporated in the British Virgin Islands. CRED.net is engaged in the provision of consultancy and design services and technical support for the high-tech industry. The consideration will be satisfied by the issue of an aggregate of 70,000,000 new shares of HK\$1.0 each in the Company at a price of HK\$1.3 per share. The transaction is scheduled to be completed in May 2001.

- (d) On 26 February 2001, an arrangement was made for a private placement to certain independent institutional investors to subscribe for 26,000,000 shares of HK\$1.0 each in the Company at a price of HK\$1.2 per share, representing a discount of 5.51% to the closing price of HK\$1.27 per share of the Company's shares as quoted on the Stock Exchange on 26 February 2001. The net proceeds from the placement of approximately HK\$29 million will be used as general working capital by the Group. The arrangement is extended to 27 March 2001.

- (e) On 27 March 2001, 13,000,000 shares of HK\$1.0 each in the Company at a price of HK\$1.2 per share was subscribed by certain independent investors and the net proceeds from the placement of approximately HK\$15 million will be used for general working capital of the Group.

The completion of the placement of the remaining 13,000,000 shares was further extended to 11 May 2001.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period presentation and audited annual financial statements for the year ended 30 June 2000.