

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2001

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 (“SSAP 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, no comparative amounts have been presented for either:

- the condensed statement of recognised gains and loss; or
- the condensed cash flow statement.

## 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 31 December 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants as follows:

### **Dividends proposed or declared after the balance sheet date**

In accordance with SSAP 9 (Revised) “Events after the Balance Sheet Date”, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity either on the face of the balance sheet or in the notes to the financial statements. This change in accounting policy has been applied retrospectively but does not result in any prior period adjustment.

### **Segment reporting**

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 “Segment Reporting”. Segment disclosures for the six months ended 30 June 2000 have been amended so that they are presented on a consistent basis.

### 3. SEGMENTAL INFORMATION

The Group's turnover for the period was wholly derived from activities carried out in the People's Republic of China (the "PRC") rather than Hong Kong activities. The breakdown by principal activity of the Group's turnover and contribution to profit before taxation is as follows:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Turnover</b>		<b>Contribution to</b>	
	<b>Six months ended</b>		<b>profit before</b>	
	<b>30 June</b>		<b>taxation</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
By principal activity				
Property development	150,570	290,674	3,720	41,250
Hotel and property management and property agency	3,586	1,958	(4,657)	(3,166)
Building materials	2,672	-	(399)	-
	<u>156,828</u>	<u>292,632</u>	(1,336)	38,084
Net realised gain on disposal of interest in a subsidiary			16,253	-
Net unrealised gains (losses) on trading securities			6,957	(8,789)
Other revenue			5,702	5,518
Indirect overheads			(27,249)	(21,338)
Profit from operations			327	13,475
Finance costs			(18,950)	(12,968)
Contribution from associates			4,047	1,814
Contribution from jointly controlled entities			89,074	33,811
Profit before taxation			<u>74,498</u>	<u>36,132</u>

#### 4. OTHER REVENUE

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Dividend income		
– unlisted shares	1,009	1,009
– listed shares	–	746
Interest income on bank deposits and loans receivable	2,208	2,793
Other income	2,485	970
	<u>5,702</u>	<u>5,518</u>

#### 5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation of property, plant and equipment	2,675	2,623
Less: amount capitalised on property under development	(186)	(234)
	2,489	2,389
Amortisation of:		
Goodwill on consolidation	802	217
Premium on acquisition of associates and jointly controlled entities	366	366
	<u>366</u>	<u>366</u>

#### 6. FINANCE COSTS

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on		
Bank loans and overdrafts	15,130	24,859
Convertible loan notes	754	11,890
Promissory notes	6,734	–
Other loans wholly repayable within five years	8,257	6,097
	30,875	42,846
Less: amount capitalised on properties under development	(11,925)	(29,878)
	<u>18,950</u>	<u>12,968</u>

## 7. TAXATION

(Unaudited)  
Six months ended 30 June  
2001                      2000  
HK\$'000                      HK\$'000

The charge (credit) comprises:

PRC income tax		
Company and subsidiaries		
– current period provision	3,562	9,551
– over-provision in prior years	(3,147)	(3,050)
Share of tax of associates	1,023	564
Share of tax of jointly controlled entities	14,799	6,548
	<u>16,237</u>	<u>13,613</u>

Hong Kong Profits Tax has not been provided as the Group has no assessable profit subject to Hong Kong Profits Tax for the six months ended 30 June 2001. Certain of the Group's subsidiaries operating in the PRC are eligible for tax exemptions and concessions. PRC income tax is calculated at the applicable rates on assessable profits.

## 8. EARNINGS PER SHARE

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

(Unaudited)  
Six months ended 30 June  
2001                      2000  
HK\$'000                      HK\$'000

### *Earnings*

Earnings for the purposes of basic and diluted earnings per share	<u>58,116</u>	<u>21,149</u>
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### *Number of shares*

Six months ended 30 June		
2001                      2000		
Weighted average number of ordinary shares for the purposes of basic earnings per share	8,490,658,332	4,138,455,842

Effect of dilutive potential ordinary shares:

Warrants	–	53,548,061
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Weighted average number of ordinary shares for the purposes of diluted earnings per share

<u>8,490,658,332</u>	<u>4,192,003,903</u>
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## 8. EARNINGS PER SHARE *(continued)*

The computation of diluted earnings per share for the six months ended 30 June 2001 does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an increase in earnings per share from continuing ordinary operations.

The computation of diluted earnings per share for the six months ended 30 June 2001 does not assume the exercise of the Company's outstanding share options and warrants as the exercise prices are higher than the average market price per share.

There was no bonus element in the rights issue approved on 13 October 2000. Accordingly, no adjustment is made on the number of ordinary shares issued in calculating the basic earnings per share for the six months ended 30 June 2000.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired leasehold improvements, furniture and fixtures and equipment and motor vehicles at a cost of HK\$3,424,000.

## 10. TRADE RECEIVABLES

The Group allows a credit period of ranging from 30 to 90 days to its trade customers.

The following is an aged analysis of trade receivables, which are included in trade and other receivables, deposits and prepayments, at the reporting date:

	(Unaudited) 30 June 2001 HK\$'000	(Audited) 31 December 2000 HK\$'000
Not yet due	39,469	31,412
Overdue within 3 months	24,161	21,525
Overdue between 4 and 6 months	9,558	24,556
Overdue between 7 and 12 months	7,616	17,081
Overdue over 12 months	46,436	28,499
	<u>127,240</u>	<u>123,073</u>

## 11. TRADE PAYABLES

The following is an aged analysis of accounts payable, which is included in trade and other payables, at the reporting date:

	(Unaudited) 30 June 2001 HK\$'000	(Audited) 31 December 2000 HK\$'000
Not yet due	27,045	75,395
Overdue within 3 months	3,368	33,664
Overdue between 4 and 6 months	12,488	7,975
Overdue between 7 and 12 months	18,895	355
Overdue over 12 months	134,727	85,242
	<u>196,523</u>	<u>202,631</u>

## 12. BORROWINGS

During the period, the net increase in bank loans amounted to HK\$165,547,000. The loans bear interest at market rates and repayable within 5 years. The proceeds were used to finance the payment of land use rights, progress payment of property under development and acquisition of new projects in the PRC.

## 13. SHARE CAPITAL

	(Unaudited) 30 June 2001 HK\$'000	(Audited) 31 December 2000 HK\$'000
<i>Authorised:</i>		
20,000,000,000 shares of HK\$0.20 each	<u>4,000,000</u>	<u>4,000,000</u>
	Number of ordinary shares of HK\$0.20 each	Nominal value HK\$'000
<i>Issued and fully paid:</i>		
At 31 December 2000 and 30 June 2001	<u>8,490,658,332</u>	<u>1,698,132</u>

There was no change in the share capital of the Company for the six months ended 30 June 2001.

## 14. RESERVES

	Investment property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Share premium account HK\$'000	Special capital reserve HK\$'000	Exchange equalisation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2000	72,553	(51,124)	211,022	1,544,171	(45,978)	395,144	2,125,788
Realised on disposal of non-trading securities	-	39,161	-	-	-	-	39,161
Deficit on revaluation	(8,283)	(6,023)	-	-	-	-	(14,306)
Share issue expenses	-	-	(12,183)	-	-	-	(12,183)
Translation of financial statements of overseas operations	-	-	-	-	(5,708)	-	(5,708)
Profit for the year, retained	-	-	-	-	-	67,919	67,919
At 31 December 2000 and 1 January 2001	64,270	(17,986)	198,839	1,544,171	(51,686)	463,063	2,200,671
Translation of financial statements of overseas operations	-	-	-	-	226	-	226
Profit for the period, retained	-	-	-	-	-	58,116	58,116
At 30 June 2001	<u>64,270</u>	<u>(17,986)</u>	<u>198,839</u>	<u>1,544,171</u>	<u>(51,460)</u>	<u>521,179</u>	<u>2,259,013</u>

## 15. CAPITAL COMMITMENTS

<b>THE GROUP</b>	
(Unaudited)	(Audited)
30 June 2001 HK\$'000	31 December 2000 HK\$'000

Capital expenditure in respect of contracted commitments for:

acquisition of additional interests in a jointly controlled entity	2,206	-
acquisition of land use rights in the PRC	818,476	613,834
loans to associates	5,406	5,406
loans to a third party	<u>13,640</u>	<u>19,238</u>

In addition to the above, the Group's attributable share of the contracted commitments in respect of the acquisition of land use rights of jointly controlled entities is HK\$60,925,000 (2000: HK\$44,373,000).

## 16. CONTINGENT LIABILITIES

	THE GROUP	
	(Unaudited) 30 June 2001 HK\$'000	(Audited) 31 December 2000 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by jointly controlled entities	122,616	163,084
Guarantees given to banks in respect of mortgage loans granted to property purchasers	411,570	291,940
Guarantee given to a bank in respect of a banking facility granted to a third party	46,449	52,991
Guarantee given to a bank in respect of a banking facility granted to minority shareholder	<u>18,692</u>	<u>18,692</u>

## 17. PLEDGE OF ASSETS

At 30 June 2001,

- (a) All the Company's undertaking and assets and the Group's interest in Jack Rock Development Limited with a carrying value of HK\$484,310,000 (2000: HK\$484,274,000) were pledged against a bank overdraft facility granted to the Company.
- (b) Bank deposits of HK\$9,581,000 (2000: HK\$3,589,000), aggregate carrying values of development properties of approximately HK\$373,337,000 (2000: HK\$195,183,000) and the Group's interest in Tian An Development (Dalian) Company Limited and Interform Ceramics Technologies Limited ("Interform") with aggregate carrying values of approximately HK\$100,912,000 (2000: nil) were pledged to banks for banking facilities granted to those subsidiaries.

## 18. ACQUISITION OF SUBSIDIARIES

During the period, as part of the restructuring of Interform, the Group acquired 68.54% of the issued share capital of Interform for a consideration of HK\$250,000,000 which was satisfied by the disposal of the Group's entire 83.3% interest in AII-Shanghai Inc, which holds 60% interest in Shanghai Allied Cement Company Limited, to Interform. In addition, the Group acquired an additional 26.33% of interest in Interform by subscribing for new shares of Interform for cash consideration of HK\$96,000,000. The acquisition was completed on 15 May 2001.



## 18. ACQUISITION OF SUBSIDIARIES (continued)

Upon acquisition of Interform, the Group's stated intention was to reduce its interest in Interform to 75% through disposal of interest in Interform or issue of new shares by Interform to third parties. Up to 30 June 2001, the Group disposed of 5.77% interest in Interform through piecemeal disposal and resulted in a gain of HK\$16,253,000.

The effect of the acquisition is summarized as follows:

	<i>HK\$'000</i>
Interest in a jointly controlled entity	124,384
Other assets	71,048
Liabilities	(99,150)
Minority interest	<u>(24,883)</u>
	71,399
Less: amount attributable to minority interests	<u>(3,663)</u>
Net assets acquired	67,736
Goodwill on acquisition	<u>152,648</u>
	<u><u>220,384</u></u>
Satisfied by:	
Interest in a jointly controlled entity	124,384
Cash consideration	<u>96,000</u>
	<u><u>220,384</u></u>
Net cash outflow arising on acquisition	
Cash consideration	(96,000)
Bank balances and cash acquired	<u>44,918</u>
	<u><u>(51,082)</u></u>

Interform did not make any significant contribution to the results of the Group during the interim period.

## 19. RELATED PARTY TRANSACTIONS AND BALANCES

During the period, Sun Hung Kai & Co. Limited (“SHK”), a substantial shareholder of the Company, extended the maturity date of the convertible loan notes of HK\$38,015,000 to 2 June 2002. Also, the Group had the following material transactions and balances with related parties:

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
(a) SHK		
– Rent, property management and air-conditioning fees paid to SHK	132	–
– Interest on convertible loan notes to SHK	754	11,890
– Interest on promissory note to SHK	5,034	–
(b) Allied Properties (H.K.) Limited (“APL”), a controlling shareholder of SHK		
– Rent, property management and air-conditioning fees, paid to APL	499	372
– Rent, property management and air-conditioning fee paid to an associate of APL	1,885	1,797
– Interest on promissory notes to APL	1,700	–
– Purchase of a property from a subsidiary of APL with a cash consideration of RMB5,000,000	4,673	–
(c) Associates and jointly controlled entities of the Group		
– Interest income from associates and jointly controlled entities	<u>1,986</u>	<u>1,507</u>

19. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	(Unaudited) 30 June 2001 HK\$'000	(Audited) 31 December 2000 HK\$'000
(d) SHK		
– Outstanding convertible loan notes payable to SHK	38,015	38,015
– Outstanding promissory note payable to SHK	145,000	–
– Amounts payable to SHK	6,692	659
(e) APL		
– Outstanding promissory notes payable to APL	72,187	72,187
– Amounts payable to APL	8,703	2,956
(f) Associates and jointly controlled entities of the Group		
– Guarantees provided by jointly controlled entities to banks for banking facilities granted to the Group	68,000	89,000
– Pledge of assets by a jointly controlled entity to banks for banking facilities amounting to HK\$86.3 million (2000: HK\$61.9 million)	<u>89,000</u>	<u>77,000</u>