

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 *Interim Financial Reporting*, issued by the Hong Kong Society of Accountants, except that, in the first year of implementation of the SSAP No. 25, 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 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 valuation of certain items of property, plant and equipment and investment in securities.

In the opinion of the directors, 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, 2000.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. The adoption of these SSAPs does not have any significant effect on the financial statements for the current or prior period.

Goodwill

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution to operating results by business and geographical segment is as follows:

	Six months ended 30th June, 2001		Six months ended 30th June, 2000	
	Revenue HK\$'000	Contribution to profit (loss) from operations HK\$'000	Revenue HK\$'000	Contribution to profit (loss) from operations HK\$'000
By business segments:				
Property sales and development	56,703	(14,093)	–	(3,513)
Property rental	2,989	1,124	3,564	(289)
Hotel operation	24,925	3,826	24,847	2,216
Others	1,318	(6,741)	1,189	(3,502)
	<u>85,935</u>	<u>(15,884)</u>	<u>29,600</u>	<u>(5,088)</u>
Unallocated overheads		<u>(12,823)</u>		<u>(7,140)</u>
		<u>(28,707)</u>		<u>(12,228)</u>
Finance costs		<u>(8,456)</u>		<u>(3,515)</u>
Share of results of associates		<u>(543)</u>		<u>–</u>
Loss before taxation		<u><u>(37,706)</u></u>		<u><u>(15,743)</u></u>
By geographical segments:				
Hong Kong	37,742	(20,901)	2,130	(11,424)
The People's Republic of China (the "PRC"), other than Hong Kong	48,193	(765)	27,470	(804)
Others	–	(7,041)	–	–
	<u>85,935</u>	<u>(28,707)</u>	<u>29,600</u>	<u>(12,228)</u>
Finance costs		<u>(8,456)</u>		<u>(3,515)</u>
Share of results of associates		<u>(543)</u>		<u>–</u>
Loss before taxation		<u><u>(37,706)</u></u>		<u><u>(15,743)</u></u>

4. LOSS FROM OPERATIONS

	Six months ended 30th June,	
	2001	2000
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Depreciation and amortisation	955	260
Less: amount capitalised in construction in progress	<u>(181)</u>	<u>(6)</u>
	774	254
Unrealised loss on investments in securities	<u>6,741</u>	<u>3,802</u>

5. TAXATION

The taxation credit for the six months ended 30th June, 2000 represented overprovision of taxation in other jurisdictions in prior years.

No provision of Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profit for both periods.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. No provision for taxation in other jurisdictions for the current period has been made in the condensed consolidated financial statements as the Group had no assessable profits subject to taxation in other jurisdictions.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of HK\$38,111,000 (2000: HK\$14,077,000) and on the weighted average number of 1,136,419,295 (2000: 1,133,974,240) ordinary shares in issue during the period.

No diluted loss per share is presented for either period as there are no dilutive ordinary shares in issue.

7. DISPOSAL OF INVESTMENT PROPERTIES

During the period, the Group disposed of certain of its investment properties, situated in Hong Kong, with an aggregate carrying value of approximately HK\$14.5 million to an independent third party at a consideration of approximately HK\$14.5 million.

In the opinion of the directors, there is no material difference between the carrying amount and the market value of investment properties as at 30th June, 2001.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred expenditure of approximately HK\$29 million on construction in progress in respect of the construction project of a toll highway in the PRC.

In the opinion of the directors, there is no material difference between the carrying amount and the market value of hotel property as at 30th June, 2001.

9. ADDITIONS TO PROPERTIES UNDER/HELD FOR DEVELOPMENT

During the period, the Group incurred expenditure of approximately HK\$2 million on the property development projects in the PRC.

10. LOAN RECEIVABLE FROM AN INVESTEE COMPANY

During the period, the loan receivable from an investee company arose from the acquisition of a subsidiary. The loan is unsecured, interest bearing at prevailing market rate and has no fixed repayment term. In the opinion of the directors, the loan is unlikely to be repaid within one year and is therefore shown in the balance sheet as non-current.

11. MOVEMENTS IN PROPERTIES HELD FOR SALE

During the period, properties held for sale, situated in Hong Kong and the PRC, of approximately HK\$83 million were acquired as a result of the acquisition of subsidiaries.

The Group disposed of certain properties held for sale with a carrying value of HK\$70 million at a consideration of approximately HK\$57 million during the period.

12. TRADE AND OTHER RECEIVABLES

The Group has a policy of agreeing credit terms with each of its trade customers based on individual customer's circumstances.

Included in trade and other receivables are trade receivables of HK\$2,329,000 (31.12.2000: HK\$2,821,000) and their aging analysis is as follows:

	30.6.2001	31.12.2000
	HK\$'000	HK\$'000
0 to 90 days	1,752	2,122
91 to 180 days	577	81
Over 180 days	–	618
	<u>2,329</u>	<u>2,821</u>

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$2,432,000 (31.12.2000: HK\$2,062,000), all of which are aged within 90 days.

14. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of US\$0.02 each		
<i>Authorised:</i>		
– balance at 31st December, 2000 and 30th June, 2001	<u>1,900,000,000</u>	<u>296,400</u>
<i>Issued and fully paid:</i>		
– balance at 31st December, 2000 and 30th June, 2001	<u>1,136,419,295</u>	<u>177,281</u>

15. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1st January, 2000	22,502	35,350	1,843,324	929	(561,093)	1,341,012
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	605	–	605
Premium arising on new issue of shares	78,138	–	–	–	–	78,138
Share issue expenses	(440)	–	–	–	–	(440)
Repurchase of ordinary shares	(74,400)	–	–	–	–	(74,400)
Capital reserve arising on acquisition of subsidiaries	–	88	–	–	–	88
Loss for the year	–	–	–	–	(582,836)	(582,836)
At 31st December, 2000 and 1st January, 2001	<u>25,800</u>	<u>35,438</u>	<u>1,843,324</u>	<u>1,534</u>	<u>(1,143,929)</u>	<u>762,167</u>
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	37	–	37
Loss for the period	–	–	–	–	(38,111)	(38,111)
At 30th June, 2001	<u>25,800</u>	<u>35,438</u>	<u>1,843,324</u>	<u>1,571</u>	<u>(1,182,040)</u>	<u>724,093</u>

16. AMOUNTS DUE TO FELLOW SUBSIDIARIES

During the period, the Group obtained new unsecured loans from its fellow subsidiaries amounting to approximately HK\$160,880,000. The amounts bear interest at prevailing market rates and will be repaid within two years from the dates of advances. The loans were used to finance the acquisition of subsidiaries and the daily operation of the Group.

17. COMMITMENTS

	30.6.2001	31.12.2000
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements relating to:		
– properties under/held for development	23,640	23,640
– properties under construction	220,263	227,150
– construction in progress	181,539	173,849
	<u>425,442</u>	<u>424,639</u>

In addition, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	30.6.2001	31.12.2000
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	2,683	–
In the second to fifth years inclusive	1,548	–
	<u>4,231</u>	<u>–</u>

Operating lease payments represent rentals payable by the Group for certain of its business premises. Leases and rentals are negotiated for an average of two years.

18. CONTINGENT LIABILITIES

In August 1999, the architect of Jiangnan Centre initiated legal proceedings against Eventic Limited ("Eventic"), a wholly-owned subsidiary of the Company, in respect of claim for payment of service fees and other expenses of HK\$0.6 million and HK\$6.6 million respectively.

Eventic vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided.

In view of the counterclaim made by Eventic, the architect amended its total claims to HK\$7.7 million. At the date of this report, the proceedings are still ongoing. After taking into consideration the advice of the Group's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial impact on the Group.

19. PLEDGE OF ASSETS

At 30th June, 2001 and 31st December, 2000, the bank and other borrowings of the Group were secured by the following assets:

- (a) Investment properties with a carrying value of HK\$17,630,000 (31.12.2000: HK\$32,130,000).
- (b) Certain part of a hotel property with a carrying value of HK\$40,529,000 (31.12.2000: HK\$40,529,000).
- (c) Bank deposits of HK\$8,427,000 (31.12.2000: HK\$8,427,000).

In addition, Fameluxe Investment Limited, a wholly-owned subsidiary of the Company has issued two debentures in favour of a bank by way of creating a first floating charge on its entire interest in Shenzhen Longchen Xinyuan Industrial Co., Ltd., a subsidiary of the Company, which also has pledged its right to receive toll fee income to another bank to secure the credit facilities.

20. POST BALANCE SHEET EVENTS

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

- (a) On 4th July, 2001, a placing and subscription agreement was entered into among the Company, China Strategic Holdings Limited ("CSH"), the ultimate holding company of the Company, and Tai Fook Securities Company Limited for the placing of 226,000,000 existing ordinary shares (the "Placing Share(s)") of US\$0.02 each in the Company to independent professional investors at a price of HK\$0.40 per Placing Share by CSH; and the Company agreed to allot and issue to CSH an aggregate of 226,000,000 new ordinary shares in the capital of the Company (the "New Share(s)") at a price of HK\$0.40 per New Share. The net proceeds received by the Company upon completion of this agreement amounted to approximately HK\$88 million and were used to repay borrowings and as additional working capital for the Group. The agreement was completed on 11th July, 2001.
- (b) On 13th July, 2001, Alliance Rich Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the acquisition of certain properties at Centergate Construction Building situated in the PRC for a consideration of HK\$188 million. The consideration shall be satisfied by way of cash consideration of HK\$45 million and the issue of 220,000,000 new shares of US\$0.02 each in the capital of the Company at an issue price of HK\$0.65 per share. The transaction has not been completed up to the date of this report.
- (c) On 13th July, 2001, Nice Home Properties Limited and Beijing Jia Li Zhi Di Real Estate Development Company Limited ("Jia Li Zhi Di"), subsidiaries of the Company, entered into an agreement with two minority shareholders of Jia Li Zhi Di in respect of the development of Phase III of Jinlong Garden (the "Jiulong Garden Agreement") in the PRC. Under Jiulong Garden Agreement, the Group was granted the option to acquire the development rights for up to 600,000 square meters, being the intended total gross floor area of Phase III of Jiulong Garden (the "Development Rights") at the consideration of RMB1,700 per square meter. On the same date, the Group exercised the option to acquire the Development Rights for 200,000 square meters at a total cash consideration of RMB340 million, subject to due diligence investigation on Phase III of Jiulong Garden. The transaction has not been completed up to the date of this report.

21. ACQUISITION OF SUBSIDIARIES

In January 2001, the Group acquired the entire issued share capital of Silvercomb Property Limited, with its principal subsidiaries mainly engaged in property investment and trading, for a cash consideration of HK\$106 million. This transaction has been accounted for using the acquisition method of accounting.

The effect of the acquisition is summarised as follows:

	HK\$'000
Net assets acquired	<u>106,000</u>
Net cash outflow arising on acquisition	
Cash consideration	<u>106,000</u>