

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

### 1 Basis of preparation

#### (a) *Going concern*

The Group recorded a net loss attributable to shareholders amounting to HK\$828,320,000 for the six months ended 30 June 2001. As at 30 June 2001, the Group had consolidated net liabilities of HK\$213,749,000. As announced on 13 September 2001, the Group is unable to pay its debts as they fall due. As explained in note 19(b), formal demand letters for immediate payment of debt from creditors have been received by the Group. It is possible that a winding up petition may be presented to the court against the Company or certain subsidiaries of the Group without further notice. Nevertheless, the Group will continue its efforts to seek a negotiated settlement with the creditors. As of the date of this interim financial report, no creditor has taken action to force the Company or any of its subsidiaries into liquidation. Further, based on the information available, the directors believe that the Group's operation may generate sufficient funds to settle its operating expenses. Accordingly, the interim financial report has been prepared on a going concern basis. If the Group is unable to reach agreement with creditors in respect of settlement terms of the debts and/or the Group is unable to generate sufficient funds to meet its operating expenses, the going concern basis would then be inappropriate. In such events, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets as current.

#### (b) *Others*

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 14 to 16.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA, except for the matters referred to in note 1(c) below.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company's or the Group's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company's registered office. The former auditors of the Group, RSM Nelson Wheeler, have expressed a qualified opinion arising from limitation of audit scope on those accounts in their report dated 28 June 2001. RSM Nelson Wheeler resigned on 4 September 2001 and KPMG was appointed by the board of directors to fill the vacancy in the office of the auditors created by such resignation on 19 September 2001.

The accounting policies used in the preparation of the interim financial report are consistent with those used in the annual financial statements for the year ended 31 December 2000 except for the change in accounting policy in connection with the adoption of SSAP 28 "Provisions, contingent liabilities and contingent assets", SSAP 30 "Business combinations" and SSAP 31 "Impairment of assets" issued by the HKSA. The nature and effects of this change in accounting policy are discussed in note 1(c).

(c) *Adoption of new accounting standards*

The HKSA issued a number of new SSAPs regarding the treatment of goodwill and provisions. The new SSAPs relevant to the Group are:

- SSAP 28 Provisions, contingent liabilities and contingent assets
- SSAP 30 Business combinations
- SSAP 31 Impairment of assets

The new SSAPs became effective for accounting periods beginning on or after 1 January 2001. As a result of the required first time adoption of these accounting standards issued by the HKSA and in accordance with the requirements of SSAP 2 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current or any prior periods presented, including the retrospective restatement of comparative periods) and the transitional provisions of the new SSAPs, the Group is required to adjust retrospectively its financial results for the prior periods.

Adoption of SSAP 30 “Business combinations” and SSAP 31 “Impairment of assets”

SSAP 31 prescribes the procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its asset, (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the profit and loss account.

SSAP 30 requires an enterprise to assess the recoverable amount of goodwill which has been previously eliminated against reserves to determine whether the goodwill has been impaired at the balance sheet date. In situations where there are impairments of goodwill which has been previously dealt with directly in reserves, the transitional provisions under SSAP 30 require the enterprise to make prior period adjustments and have the comparatives restated.

The opening balance of capital reserves at 1 January 2000 represents negative goodwill amounted to HK\$14,326,000. During the year ended 31 December 2000, goodwill arising from repossession of certain subsidiaries amounted to HK\$31,282,000 had been eliminated against reserves. As a result, goodwill at 31 December 2000 amounted to HK\$16,956,000, which also represents the balance at 30 June 2001 as there have been no movements in goodwill during the current period.

Following the adoption of SSAP 31, the recoverable amount of the goodwill arising from repossession of subsidiaries in the year ended 31 December 2000 was assessed and full provision for impairment was considered appropriate. The impairment loss of HK\$31,282,000 would have been charged to the profit and loss account as a prior year adjustment and the comparatives would have been restated accordingly. However, no adjustment has been made in the interim financial report, because the Group has not collected all the necessary information regarding the opening balance of negative goodwill at 1 January 2000 to quantify the appropriate adjustments to be required for adoption of the new SSAP 30 and SSAP 31.

Adoption of SSAP 28 Provisions, contingent liabilities and contingent assets

SSAP 28 clarifies the measurement and disclosures of provisions, contingent liabilities and contingent assets. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

## 2 Results for the period

The unaudited consolidated loss of the Group attributable to shareholders for the period ended 30 June 2001 was HK\$828,320,000.

## 3 Turnover

Turnover comprises gross proceeds from sales of properties and rental income less sales tax.

## 4 Segment information

An analysis of the Group's turnover and contribution to (loss)/profit from operations is as follows:—

	Turnover		Contribution to	
	Six months ended		(loss)/profit from	
	30 June		operations	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>By activity</b>				
Property sales	24,201	49,358	(7,915)	299
Property rental	12,758	21,227	(131,736)	14,476
	<u>36,959</u>	<u>70,585</u>	<u>(139,651)</u>	<u>14,775</u>
Other net (expenses)/income			<u>(680,244)</u>	<u>17,863</u>
			<u>(819,895)</u>	<u>32,638</u>

No geographical analysis is shown as all the Group's turnover and results from operations are derived from activities in the People's Republic of China ("PRC").

## 5 Other net operating (expenses)/income

	Six months	
	ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Provision for doubtful debts for receivables and prepayments ( <i>note a</i> )	(23,407)	—
Written back of provision for doubtful debts ( <i>note a</i> )	7,207	—
Written back of provision for amounts due from related companies	3,038	19,390
	<u>(13,162)</u>	<u>19,390</u>

- (a) Provision has been made against all long outstanding balances due from trade debtors and other debtors including deposits paid for construction projects or when the prospects of recovery are uncertain. Provision is written back upon receipt of the amount previously provided for.

## 6 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Cost of properties sold	27,105	49,059
Interest on borrowings	8,425	15,314
Depreciation charges	657	780
Provision for litigation claims ( <i>note 18(b)</i> )	14,149	—

## 7 Taxation

Taxation in the unaudited balance sheet is the directors' best estimate on the basis of information available at 30 June 2001 of the probable amount payable by the Group in respect of PRC tax as at 30 June 2001.

No provision for Hong Kong profits tax has been made in the interim financial report as there was no assessable profit for the period. No provision for overseas tax including PRC tax was made as the Group had no overseas assessable profit during the period.

## 8 (Loss)/earnings per share

### (a) Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the net loss for the period of HK\$828,320,000 (30 June 2000: profit of HK\$14,335,000) and on 1,360,000,000 (30 June 2000: 1,360,000,000) ordinary shares in issue during the period.

### (b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is not presented because there were no dilutive potential ordinary shares in existence during the current period and the share options outstanding during prior period had no dilution effect on earnings per share.

## 9 Investment properties

Given the changes in the market conditions in the property market in the PRC, the Group engaged Guangdong United Dazheng Assets Valuation Company Limited, an independent firm of professional valuer to carry out a valuation on the Group's investment properties as at 30 June 2001, on an open market value basis. The revaluation resulted in a net deficit of HK\$785,722,000 (31 December 2000: HK\$276,234,000), of which HK\$665,722,000 was eliminated fully against the investment properties revaluation reserve, and the remaining balance of HK\$120,000,000 was charged in the current period's profit and loss account. Because of the significant change in valuation of the Group's investment properties during the six months ended 30 June 2001, the directors have initiated certain procedures as they consider necessary to ensure the consistency of assumptions, methods and data used in the valuations on the Group's investment properties at 30 June 2001 and 31 December 2000 and direct enquiries have been made to the relevant parties including the independent valuer who performed the valuation for the Group at 31 December 2000. Such procedures have not yet been completed as of the date of this interim financial report.

At 30 June 2001, investment properties of approximately HK\$106,657,000 (31 December 2000: HK\$113,724,000) have been pledged to a bank and a finance company for loans granted to the Company and a subsidiary.

## 10 Properties held for/under development

Properties held for/under development relate to the acquisition of the land use rights for eight land sites within Guangdong Province, the PRC. At 30 June 2001, the carrying value of the properties held for/under development before provision amounted to HK\$904 million including the accruals of HK\$361 million on the purchase consideration of the land sites and other development costs, of which a sum of HK\$142 million relating to payment of the costs of land was overdue at 30 June 2001. Pursuant to the terms of the purchase agreements regarding the property development projects, unless the purchase costs are settled and the projects completed within a scheduled period, the land sites will be treated as idle sites which could result in forfeiture of payments made to the vendors, termination of the purchase agreements and late payment penalties. In addition, the vendors could take legal action against the Group for compensation. As at the date of this report, the vendors have not instituted any legal action against the Group in relation to the aforesaid events.

The Group has taken into account the above circumstances and based on information available up to the date of the interim financial report, full provision has been made against the costs of four of the eight development sites. For the remaining four sites, as the estimated recoverable amount is less than the costs of such sites, their carrying values were written down to their recoverable amounts. As a result, total amount of provision for impairment of properties held for/under development charged for the period amounted to HK\$659 million (30 June and 31 December 2000: nil).

## 11 Inventory of completed properties

The carrying amount of inventory of completed properties held for sales carried at net realizable value is HK\$15,227,000 (31 December 2000: HK\$20,130,000).

## 12 Accounts receivable

The ageing analysis of accounts receivable as at 30 June 2001 is as follows:–

	<b>At 30 June 2001 HK\$'000</b>	At 31 December 2000 HK\$'000
Within 3 months	<b>4,519</b>	11,784
4 – 6 months	<b>29,065</b>	4,472
7 – 12 months	<b>11,286</b>	2,247
Over 1 year	<b>108,535</b>	120,318
Total	<b>153,405</b>	138,821
Less: Provision for doubtful debts	<b>(119,800)</b>	(124,559)
	<b>33,605</b>	14,262

### 13 Accounts payable

The ageing analysis of accounts payable as at 30 June 2001 is as follows:–

	<b>At 30 June 2001 HK\$'000</b>	At 31 December 2000 HK\$'000
Within 3 months	2,291	20,620
4 – 6 months	212	1,767
7 – 12 months	22,519	77,282
Over 1 year	<u>400,610</u>	<u>350,865</u>
Total	<u><b>425,632</b></u>	<u>450,534</u>

### 14 Bank and other borrowings

Bank and other borrowings comprise:

	<b>At 30 June 2001 HK\$'000</b>	At 31 December 2000 HK\$'000
Bank loans ( <i>note (a)</i> )	35,610	35,579
Bank overdraft	–	32
Other loans ( <i>note (b)</i> )	16,340	17,850
Obligations under finance leases	<u>219</u>	<u>523</u>
	<u><b>52,169</b></u>	<u>53,984</u>
Analysed as		
Secured	49,342	51,126
Unsecured	<u>2,827</u>	<u>2,858</u>
	<u><b>52,169</b></u>	<u>53,984</u>

- (a) A bank loan of HK\$32,783,000 (31 December 2000: HK\$32,753,000) advanced by a bank to a subsidiary is secured by a corporate guarantee from the Company, personal guarantees issued by two former directors of the Company, investment properties with valuation of approximately HK\$90,461,000 (31 December 2000: approximately HK\$76,881,000) and bank deposit of HK\$447,000 (31 December 2000: HK\$442,000) of the Group at 30 June 2001. As the subsidiary is in technical default on repayment of the loan and related interest, the loan became immediately repayable and is therefore classified under current liabilities.

- (b) Other loans of HK\$16,040,000 (31 December 2000: HK\$17,550,000) advanced by a bank to a subsidiary are secured by personal guarantees issued by two former directors and investment properties with valuation of approximately HK\$16,196,000 (31 December 2000: approximately HK\$36,843,000) of the Group at 30 June 2001. The balance of other loans of HK\$300,000 (31 December 2000: HK\$300,000) advanced from a third party to a subsidiary is secured by a personal guarantee issued by a former director. As the subsidiary is in technical default on repayment of the loans and related interest, the loans became immediately repayable and are therefore classified as current (see note 19(b)).

## 15 Shareholders' equity

There was no movement in the share capital of the Company in the current interim reporting period.

	Share capital '000	Share Premium '000	Other reserves '000	Accumulated losses '000	Total shareholders' equity '000
Balance at 1 January 2001	136,000	906,000	567,907	(308,227)	1,301,680
Transfer to profit and loss account on disposal	–	–	(21,537)	–	(21,537)
Revaluation deficit	–	–	(665,722)	–	(665,722)
Translation of financial statements of PRC subsidiaries	–	–	150	–	150
Loss for the period	–	–	–	(828,320)	(828,320)
Balance at 30 June 2001	<u>136,000</u>	<u>906,000</u>	<u>(119,202)</u>	<u>(1,136,547)</u>	<u>(213,749)</u>

## 16 Capital Commitments

The Group had capital commitments outstanding as at 30 June 2001 and 31 December 2000 not provided for as follows:

	At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Capital commitments in respect of construction in progress – contracted but not provided for	<u>428,909</u>	<u>240,469</u>

## **17 Comparative figures**

Certain of the 2000 comparative figures have been reclassified to conform with the current period presentation. Comparative figures for the analysis of expenses, including administrative expenses in the consolidated profit and loss account have been reclassified to conform with the classification of expenses items in the Company's current period interim financial report, and an additional line item in respect of other net operating (expenses)/income has been added.

## **18 Material contingent liabilities**

- (a) The Group has executed guarantees to two banks for mortgage facilities granted to first buyers of certain properties of the group in the PRC. The utilised amounts of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group at the balance sheet date amounted to approximately HK\$128 million (31 December 2000: approximately HK\$128 million).
- (b) In this connection with the contingent liabilities disclosed in 18(a), a total of 56 writs and claims had been served against a subsidiary in the PRC by a bank claiming for repayment of mortgage loans granted to certain buyers of the properties of the Group totalling HK\$115 million (31 December 2000:HK\$72 million) which were covered by the guarantees of the Group as set out above. Certain claims had been executed at 30 June 2001. Provision of HK\$14 million for the shortfall between the amount of executed claims totalling HK\$60 million and the estimated net sales proceeds of the forfeited properties in respect of the executed claims which is estimated to be HK\$46 million, has been made at 30 June 2001. In connection with the remaining claims totalling HK\$55 million, based on the information available up to the date of the interim financial report, the Group consider that it is not probable that the Group will be required to settle the claims and no provision has been made in this regard.
- (c) Contingent liabilities in connection with the Group's properties held for/under development are disclosed in note 10.
- (d) Contingent liabilities as disclosed in note 19 as post balance sheet events.

Save as disclosed above, neither the Company nor any members of the Group are engaged in any litigation or arbitration of significance and, so far as the directors are aware, no litigation or arbitration of significance is pending or threatened against any members of the Group.

## **19 Post balance sheet events**

- (a) On 8 July 2001, a formal demand letter for repayment of outstanding property management fee, water and electricity charges, and related late charges totalling HK\$88 million at 30 June 2001 of which approximately HK\$30 million had been accrued by the Group at 30 June 2001. The Group has reviewed all information available and consider that it will not be liable for payment of the difference between the amount claimed by the claimant and the accrual made at 30 June 2001 and accordingly, no additional provision has been made in the accounts.

- (b) In May 2001, a writ had been served against the Company by a finance Company claiming the repayment of a loan of HK\$17,550,000 plus accrued interest. On 16 June 2001, a consent order was agreed by both parties which required the Company to settle the outstanding loan amount plus accrued interest in full by instalments before 15 September 2001. The Company had however defaulted on repayments according to the consent order. On 30 August 2001, the finance company issued a formal demand for the repayment of principal plus interest in the sum of HK\$16,026,000 overdue. If the payment was not made within three weeks upon receipt of the demand letter, the finance company indicated that a winding up petition would be presented to court. The Company failed to make the abovementioned payment on the due date. However, as of the interim financial report date, the finance company has not taken any action to present a winding up petition to the court.