

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Everbest Holdings Group Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the repairs and maintenance of civil engineering establishments and buildings under construction contracts in Hong Kong, property development and the provision of medical and health services in the People’s Republic of China (“PRC”), and investment holding.

2. Significant accounting policies

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

The unaudited interim consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” and with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The interim consolidated financial statements for the six months ended 31st January, 2002 are unaudited and have been reviewed by the Audit Committee of the Company.

Certain comparative figures for the period from 1st August, 2000 to 31st January, 2001 have been reclassified to conform with the Period’s presentation and the presentation of the audited annual financial statements for the year ended 31st July, 2001.

The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31st July, 2001, except the newly adopted accounting standards as described below.

In the current period, the Group adopted, for the first time, a number of new and revised SSAP issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following revised accounting policy.

Goodwill

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill previously eliminated against reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiaries and associates and the date of adoption of SSAP 30 have been recognized retrospectively (see Note 8). Goodwill arising on acquisition prior to 1st August, 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or joint venture, or at such time as further impairment losses are identified. Negative goodwill arising on acquisitions prior to 1st August, 2001 will be credited to income at the time of disposal of the relevant subsidiary, associate or joint venture.

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Goodwill arising on acquisitions after 1st August, 2001 is capitalized and amortized over its estimated useful life of 20 years. Negative goodwill arising on acquisitions after 1st August, 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. Turnover and segment information

Turnover represents the amounts received and receivable from repairs and maintenance of civil engineering establishments and buildings under construction contracts, medical and health service fees earning during the Period and proceeds from sale of properties, net of business tax, adjusted to reflect the percentage of completion of construction to the extent these were not previously recognized.

The Group's turnover and contribution to loss before taxation analyzed by principal activity and geographical market are as follows:

	Turnover		Contribution to loss before taxation	
	Six months ended		Six months ended	
	31st January		31st January	
	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repairs and maintenance of civil engineering establishments and buildings under construction contracts in Hong Kong	96,544	126,008	(9,713)	(241)
Sales of properties in the PRC	1,680	–	(481)	–
Provision of medical and health services in the PRC	9,042	9,350	4,582	2,640
	<u>107,266</u>	<u>135,358</u>	(5,612)	2,399
Other income			2,712	1,704
Administrative and other operating expenses			(31,034)	(23,267)
Share of results of associates			460	(8,339)
Net interest expenses			(3,876)	(1,197)
Loss before taxation			<u>(37,350)</u>	<u>(28,700)</u>

Loss before taxation is arrived at after charging depreciation and amortization amounting to HK\$3,464,000 (1.8.2000 to 31.1.2001: HK\$5,555,000).

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4. Other revenue

	Six months ended 31st January, 2002 (Unaudited) HK\$'000	Six months ended 31st January, 2001 (Unaudited) HK\$'000
Interest income	6,192	9,491
Rental income	616	–
Sundry income	2,096	1,704
	<u>8,904</u>	<u>11,195</u>

5. Taxation

	Six months ended 31st January 2002 (Unaudited) HK\$'000	Six months ended 31st January 2001 (Unaudited) HK\$'000
The charge comprises:		
Underprovision of profits tax in prior years		
Hong Kong	125	–
Other regions in the PRC	–	–
	<u>125</u>	<u>–</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses for the Period and the period from 1st August, 2000 to 31st January, 2001.

Taxation arising in other regions in the PRC is calculated at the rates prevailing in the respective regions.

6. Interim dividend

The directors do not recommend the payment of interim dividend for the Period. (1.8.2000 to 31.1.2001: nil).

7. Loss per share

The calculation of the basic loss per share is based on the net loss for the Period of HK\$37,483,000 (1.8.2000 to 31.1.2001: loss of HK\$28,700,000) and on the weighted average of 2,256,525,000 shares in issue during the Period (1.8.2000 to 31.1.2001: 2,072,370,000 shares). No diluted loss per share for the Period and for the period from 1st August, 2000 to 31st January, 2001 have been presented because the effect of exercising an option or a warrant to subscribe for an additional share of the Company is anti-dilutive.

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8. Adjustment retrospectively applied upon adoption of new and revised SSAP

The financial effect of the adoption of the revised accounting policy as described in note 2 is summarized as follows:

	Six months ended 31st January, 2001 (Unaudited) HK\$'000	Twelve months ended 31st July, 2001 (Unaudited) HK\$'000
Loss as previously reported	(28,700)	(116,592)
Impairment of goodwill recognized upon the adoption of SSAP 30	<u>—</u>	<u>(49,726)</u>
Loss as retrospectively restated	<u>(28,700)</u>	<u>(166,318)</u>
Basic loss per share:		
As previously reported	<u>(1.4 cents)</u>	<u>(5.5 cents)</u>
As retrospectively restated	<u>(1.4 cents)</u>	<u>(7.9 cents)</u>
Diluted loss per share:		
As previously reported	<u>N/A</u>	<u>N/A</u>
As retrospectively restated	<u>N/A</u>	<u>N/A</u>

SSAP 30 prescribes 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 assets, (including property, plant and equipment, goodwill arising on business combination accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds 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.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves. The Group has retrospectively restated its previously reported net loss for the period from 1st August, 2000 to 31st January, 2001 and the year ended 31st July, 2001 by a loss of nil and HK\$49,726,000 respectively for the impairment of goodwill arising from the acquisition of subsidiaries and associates.

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9. Investment properties

	31st January, 2002 (Unaudited) HK\$'000	31st July, 2001 (Audited) HK\$'000
At beginning of period	181,199	–
Transfer from properties under development	–	233,792
Addition	5,018	–
Revaluation deficit	–	(52,593)
	<u>186,217</u>	<u>181,199</u>
At end of period	<u>186,217</u>	<u>181,199</u>

Investment properties were revalued at their open market value at 31st July, 2001 by Chesterton Petty Limited, an independent valuer, on an open market value basis.

Investment properties with an aggregate carrying value of approximately HK\$32,623,000 have been pledged to secure banking facilities granted to the Group.

The investment properties are situated in the PRC under long leases.

10. Property, plant and equipment

	Leasehold land and buildings HK\$'000	Properties under construction HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
COST						
At 1st August, 2001	65,689	556	17,695	16,115	5,450	105,505
Addition	–	–	72	566	14	652
Disposal	–	–	(107)	–	–	(107)
	<u>65,689</u>	<u>556</u>	<u>17,660</u>	<u>16,681</u>	<u>5,464</u>	<u>106,050</u>
At 31st January, 2002	<u>65,689</u>	<u>556</u>	<u>17,660</u>	<u>16,681</u>	<u>5,464</u>	<u>106,050</u>
DEPRECIATION AND AMORTIZATION						
At 1st August, 2001	9,439	–	12,284	14,385	3,015	39,123
Provided for the period	1,272	–	1,108	695	389	3,464
Eliminated on disposals	–	–	(107)	–	–	(107)
	<u>10,711</u>	<u>–</u>	<u>13,285</u>	<u>15,080</u>	<u>3,404</u>	<u>42,480</u>
At 31st January, 2002	<u>10,711</u>	<u>–</u>	<u>13,285</u>	<u>15,080</u>	<u>3,404</u>	<u>42,480</u>
NET BOOK VALUES						
At 31st January, 2002	<u>54,978</u>	<u>556</u>	<u>4,375</u>	<u>1,601</u>	<u>2,060</u>	<u>63,570</u>
At 31st July, 2001	<u>56,250</u>	<u>556</u>	<u>5,411</u>	<u>1,730</u>	<u>2,435</u>	<u>66,382</u>

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The net book value of properties shown above comprises:

	31st January, 2002 (Unaudited) HK\$'000	31st July, 2001 (Audited) HK\$'000
Land in Hong Kong:		
Long leases	40,771	41,396
Land outside Hong Kong:		
Medium-term leases	<u>14,763</u>	<u>15,410</u>
	<u><u>55,534</u></u>	<u><u>56,806</u></u>

At 31st January, 2002, the net book value of motor vehicles included an amount of approximately HK\$958,000 (31.7.2001: HK\$1,253,000) in respect of assets held under finance leases and hire purchase contracts.

11. Golf resort under construction

	31st January, 2002 (Unaudited) HK\$'000	31st July, 2001 (Audited) HK\$'000
Cost		
At beginning of period	150,023	84,023
Additions	8,750	30,000
Transfer from prepayment for golf resort under construction	<u>—</u>	<u>36,000</u>
	158,773	150,023
Prepayment for golf resort under construction	<u>20,950</u>	<u>20,950</u>
At end of period	<u><u>179,723</u></u>	<u><u>170,973</u></u>

The golf resort under construction is situated in the PRC under a long lease.

Up to 31st January, 2002, interest expense of HK\$360,000 (31.7.2001: HK\$360,000) was capitalized in golf resort under construction.

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Pursuant to the agreement dated 10th December, 1999 entered into between the Group and Ms. Yeung Pak Wa and Mr. Yip Siu Sang, the former owners of Tammerworth Development Limited ("Tammerworth"), Ms. Yeung Pak Wa and Mr. Yip Siu Sang are responsible for all costs and expenses to be incurred in the construction of the golf resort. Pursuant to the valuation report issued by Chesterton Petty Limited dated 14th February, 2000, the estimated costs to complete the golf resort amounted to approximately HK\$56,950,000. Pursuant to the supplemental agreement date 18th January, 2000 entered into between the Group and Ms. Yeung Pak Wa and Mr. Yip Siu Sang, 120,000,000 shares of China Rich Holdings Limited were kept by the nominee of the Group as a security for discharging the costs and expenses of the construction of the golf resort.

At 31st July, 2001, the amount of HK\$20,950,000 was classified as prepayment for golf resort under construction. During the Period, no amount was transferred to the cost of golf resort under construction.

12. Properties under development

Properties under development are situated in the PRC and are held under long leases.

Up to 31st January, 2002, properties under development included net interest capitalized of approximately HK\$3,968,000 (31.7.2001: HK\$3,968,000).

13. Interests in associates

	31st January, 2002 (Unaudited) HK\$'000	31st July, 2001 (Audited) HK\$'000
Share of net assets	<u>103,835</u>	<u>103,375</u>
Market value of listed securities	<u>71,074</u>	<u>60,736</u>

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Details of the Group's associates at 31st January, 2002 are as follow:

Name of associate	Place of incorporation	Place of operation	Proportion of ownership interest		Proportion of voting power held	Principal activity
			Directly	Indirectly		
GreaterChina Technology Group Limited ("GCTG")	Cayman Islands	Hong Kong	35%	3%	38%	Provision of on-line content and the provision of portal development and information technology consultation income. From November, 2001, GCTG is also engaged in off-line businesses in relation to the research and development, manufacturing, marketing and distribution of a new line of traditional Chinese medicine products.
GZTF Engineering Consulting Co., Ltd. ("GZTF") 廣州通富工程顧問有限公司	PRC	PRC	-	33%	33%	Consultancy service on construction projects.

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Financial information of GCTG as extracted from its unaudited interim reports are as follows:

	31st January, 2002 (Unaudited) HK\$'000	31st July, 2001 (Audited) HK\$'000
Non-current assets	<u>59,389</u>	<u>9,966</u>
Current assets	<u>410,802</u>	<u>433,759</u>
Current liabilities	<u>197,213</u>	<u>171,955</u>
Net profit (loss) for the period	<u>1,207</u>	<u>(69,059)</u>

14. Trade and other debtors

The credit terms of the Group range from 30 to 90 days. The aging analysis of trade and other debtors is as follows:

	31st January, 2002 (Unaudited) HK\$'000	31st July, 2001 (Audited) HK\$'000
Aged:		
0 to 30 days	18,271	39,327
31 to 60 days	5,844	-
61 to 90 days	2,212	3,000
91 to 180 days	4,153	6,000
181 to 365 days	<u>38,777</u>	<u>24,098</u>
	<u>69,257</u>	<u>72,425</u>

15. Advances to subcontractors

The amount are unsecured, bear interest at market rate except for doubtful advances on which no interest is accrued, and are repayable on demand.

The aging analysis of advances to subcontractors is as follows:

	31st January, 2002 (Unaudited) HK\$'000	31st July, 2001 (Audited) HK\$'000
Aged:		
0 to 30 days	5,305	1,300
91 to 180 days	-	5,269
181 to 365 days	<u>2,951</u>	<u>-</u>
	<u>8,256</u>	<u>6,569</u>

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16. Trade and other creditors

	31st January, 2002 (Unaudited) HK\$'000	31st July, 2001 (Audited) HK\$'000
Aged:		
0 to 30 days	32,355	22,200
31 to 60 days	9,603	6,088
61 to 90 days	1,924	8,373
91 to 180 days	2,548	2,869
181 to 365 day	8,529	9,218
	<u>54,959</u>	<u>48,748</u>

17. Share Capital

	Number of shares	Share capital HK\$'000
<i>Authorised:</i>		
Shares of HK\$0.10 each		
At 1st August, 2001	3,000,000,000	300,000
Addition	<u>5,000,000,000</u>	<u>500,000</u>
At 31st January, 2002	<u>8,000,000,000</u>	<u>800,000</u>
<i>Issued and fully paid:</i>		
Shares of HK\$0.10 each		
At 1st August, 2001	2,256,166,196	225,617
Exercise of share options	<u>500,000</u>	<u>50</u>
At 31st January, 2002	<u>2,256,666,196</u>	<u>225,667</u>

On 10th January, 2002, an ordinary resolution was passed at a special general meeting to increase the authorized share capital of the Company from HK\$300,000,000 to HK\$800,000,000 by the creation of an additional 5,000,000,000 shares of HK\$0.10 each in the capital of the Company.

Warrants

Pursuant to an agreement dated 12th November, 2001 and a supplemental agreement dated 26th November, 2001, the Company entered into a conditional placing and underwriting agreement with the placing agents for the private placing of 400,000,000 units of warrants of the Company at a price of HK\$0.10 per unit to independent investors. Each unit of warrants will give the holder the right to subscribe in cash for one share of the Company at an initial subscription price of HK\$0.35 per share of HK\$0.10 of the Company (subject to adjustment) at any time from the date of issue thereof up to and including 11th June, 2003.

The warrants was started trading on 12th December, 2001. During the Period, no registered warrant holders exercised their rights to subscribe for shares in the Company.

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18. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Distributable reserve HK\$'000	Other reserve HK\$'000	(Deficit)/ retained profits HK\$'000	Total HK\$'000
At 1st August, 2001 previously reported	399,399	11,613	(49,726)	77,033	-	524	438,843
Impairment of goodwill recognized upon the adoption of SSAP 30	-	-	49,726	-	-	(49,726)	-
At 1st August, 2001 as retrospectively restated	399,399	11,613	-	77,033	-	(49,202)	438,843
Premium arising from issue of shares	100	-	-	-	-	-	100
Issue of new warrants, net of expenses	-	-	-	-	38,845	-	38,845
Net loss for the period	-	-	-	-	-	(37,483)	(37,483)
At 31st January, 2002	<u>399,499</u>	<u>11,613</u>	<u>-</u>	<u>77,033</u>	<u>38,845</u>	<u>(86,685)</u>	<u>440,305</u>
Attributable to:							
Company and subsidiaries	399,499	11,613	-	77,033	38,845	(49,007)	477,983
Associates	-	-	-	-	-	(37,678)	(37,678)
	<u>399,499</u>	<u>11,613</u>	<u>-</u>	<u>77,033</u>	<u>38,845</u>	<u>(86,685)</u>	<u>440,305</u>

The capital reserve of the Group represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganization in 1994.

19. Commitments

At the balance sheet date, the Group had the following future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	31st January, 2002 HK\$'000	31st July, 2001 HK\$'000
Operating leases which expire:		
- within one year	-	1,100
- in the second to fifth year inclusive	<u>1,100</u>	<u>244</u>
	<u>1,100</u>	<u>1,344</u>

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At the balance sheet date, the Group had the following other commitments:

	31st January, 2002	31st July, 2001
	HK\$'000	HK\$'000
Commitments contracted for but not provided in the financial statements in relation to:		
– acquisition of shares in a subsidiary from a minority shareholder	4,400	4,400
– construction of golf resort	2,846	2,846
	<u>7,246</u>	<u>7,246</u>
Commitments authorised but not contracted for:		
– construction of properties	<u>1,900</u>	<u>1,900</u>

20. Pledge of assets

At the balance sheet date, leasehold land and buildings having a net book value of approximately HK\$40,000,000 (31.7.2001: HK\$40,870,000), bank deposits of approximately HK\$416,670,000 (31.7.2001: HK\$413,282,000), certain trade receivable from customers, certain investment properties and certain completed properties for sale of the Group have been pledged to banks to secure credit facilities granted to the Group.

21. Contingent liabilities

At the balance sheet date, the Group did not have any significant contingent liabilities.

22. Related party transactions

During the period, the Group entered into the following related party transactions:

- (i) The Group received rental income of HK\$630,000 (1.8.2000 to 31.1.2001: HK\$204,000) from GCTG. The amount of HK\$204,000 (1.8.2000 to 31.1.2001: HK\$204,000) was based on the areas occupied by GCTG at a unit rate of HK\$17 per square feet pursuant to the agreement entered into between the parties dated 21st February, 2000. The unit rate per square feet was determined by reference to the market rental transactions similar to this property in January 2000, which was confirmed by a chartered surveyor. The balance of HK\$426,000 was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (ii) The Group received administrative service fee of HK\$240,000 (1.8.2001 to 31.1.2001: HK\$240,000) from GCTG. The fee is charged at a fixed monthly fee of HK\$40,000 pursuant to the agreement entered into between the parties dated 21st February, 2000. The fee was calculated with reference to the proportion of the estimated time spent by the staff of the Group on the affairs of GCTG.

- (iii) The Group provided qualified Chinese herbalist doctors to handle online enquiries for the users of GCTG's website. In respect of the services provided, the Group received consultant fee of HK\$161,667 (1.8.2000 to 31.1.2001: HK\$300,000) from GCTG. The fee is charged at a fixed monthly fee of HK\$50,000 pursuant to the agreement entered into between the parties dated 11th November, 1999. The fee was calculated with reference to the proportion of the estimated time spent by the doctors. The payment was terminated on 7th November, 2001 as all the doctors were resigned.
- (iv) The Group received website development fees of HK\$240,000 (1.8.2000 to 31.1.2001: HK\$260,000) from GCTG pursuant to the agreement entered into between the parties dated 3rd January, 2000. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (v) The Group paid advertising fee of HK\$435,000 (1.8.2000 to 31.1.2001: HK\$1,360,000) to GCTG. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (vi) The Group paid information technology advisory fee of HK\$309,000 (1.8.2000 to 31.1.2001: HK\$25,000) to GCTG. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (vii) At 31st January, 2002, an amount of HK\$531,000 (31.7.2001: HK\$403,000) was due to GCTG and an amount of HK\$3,308,000 (31.7.2001: HK\$3,308,000) was due from GZTF. These amounts are unsecured, non-interest bearing and are repayable on demand.

23. Post Balance Sheet Event

Subsequent to the balance sheet date, Benefit Holdings International Limited ("Benefit Holdings"), a wholly owned subsidiary of the Company, entered into:

- (a) an unconditional agreement ("Wai Shun Agreement") to dispose of all its shareholding interests in Wai Shun Construction Company Limited ("Wai Shun"); and
- (b) an unconditional agreement ("Wing Fai Agreement") to dispose of all its shareholding interests in Wing Fai Construction Company Limited ("Wing Fai").

Pursuant to the agreements, Benefit Holdings sold all its shareholding interests in Wai Shun and Wing Fai for a total consideration of HK\$5,100,000. Benefit Holdings had also agreed in the Wing Fai Agreement that the interest free shareholders' loan due and owing to it in the sum of HK\$40,000,000 be repaid within 6 months from the date of the Wing Fai Agreement. The directors intend to allocate the net proceeds from the disposal be used as the general working capital of the Group.