

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2002

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

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 2001.

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 has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash flow statements

In the current period, the Group has adopted SSAP No.15 (Revised) "Cash Flow Statements". Under SSAP No.15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

3. SEGMENTAL INFORMATION

For management purposes, the Group is organised into two main operating business - property development and property investment. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Business segments

	Property development		Property investment		Other		Total	
	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	30.6.2002	30.6.2001	30.6.2002	30.6.2001	30.6.2002	30.6.2001	30.6.2002	30.6.2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	<u>11,702</u>	<u>31,320</u>	<u>—</u>	<u>144</u>	<u>534</u>	<u>742</u>	<u>12,236</u>	<u>32,206</u>
Segment results	<u>(148,020)</u>	<u>(12,335)</u>	<u>(541)</u>	<u>(634)</u>	<u>(191)</u>	<u>(384)</u>	<u>(148,752)</u>	<u>(13,353)</u>
Finance costs							<u>(2,695)</u>	<u>(3,156)</u>
Loss before taxation							<u>(151,447)</u>	<u>(16,509)</u>
Taxation							<u>—</u>	<u>1,200</u>
Net loss for the period							<u>(151,447)</u>	<u>(15,309)</u>

Geographical segments

The Group's operations are mainly located in Hong Kong and the People's Republic of China (other than Hong Kong) (the "PRC"). The Group's turnover and results are substantially derived from the activities carries out in the PRC. Accordingly, no analysis by geographical segments is presented.

4. LOSS FROM OPERATIONS

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation	972	1,368
Deficit on revaluation of investment properties	43	300
Loss on disposal of investment properties	—	390
Gain on disposal of property, plant and equipment	(189)	—
	<u> </u>	<u> </u>

5. FINANCE COSTS

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Total finance costs	5,410	4,515
Less: Interest capitalised in properties under development	(2,715)	(1,359)
	<u> </u>	<u> </u>
	<u>2,695</u>	<u>3,156</u>

Interest capitalised during the period was calculated at a rate of approximately 7% (1.1.2001 - 30.6.2001: 7%) per annum.

6. TAXATION

No provision for profits tax has been made as the Group had no assessable profit for the period. The taxation credit for the six months ended 30 June 2001 represented overprovision of income tax in the PRC in prior years.

The Group did not have any significant unprovided deferred taxation for the period or unprovided deferred tax asset or liability at the balance sheet date.

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the period of approximately HK\$151,447,000 (2001: HK\$15,309,000) and the weighted average of 646,606,000 (2001: 309,536,000) ordinary shares in issue during the period.

The weighted average number of ordinary shares for the period from 1 January 2001 to 30 June 2001 for the purposes of calculating the basic loss per share has been adjusted for the rights issue on 23 January 2002 and 11 April 2002.

The computation of diluted loss per share has not assumed the exercise of the potential ordinary shares since their exercise would result in a reduction in loss per share.

8. PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings in the PRC were revalued at their open market value by Vigers Hong Kong Limited, a firm of independent professional valuers, at 30 June 2002. Deficits on revaluation of approximately HK\$12,349,000 and HK\$9,277,000 arising from the above valuations have been charged to the income statement and leasehold land and buildings revaluation reserve respectively.

At 30 June 2002, certain of the Group's leasehold land and buildings situated in Hong Kong and the PRC with carrying values of approximately HK\$2,610,000 (31.12.2001: HK\$2,610,000) and HK\$11,003,000 (31.12.2001: HK\$26,000,000) respectively were pledged to secure certain banking facilities granted to the Group.

9. INTEREST IN A JOINTLY CONTROLLED ENTITY

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
Jointly controlled entity - share of net assets	70,250	—
Loan to a jointly controlled entity	140,010	—
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	210,260	—
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The loan to a jointly controlled entity is unsecured and bears interest at commercial rate.

As at 30 June 2002, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of registered capital held by the Group	Nature of business
Shanghai Shimao Hubin Real Estate Company Limited	Incorporated	PRC	PRC	Registered capital	50%	Property development

10. INVESTMENT PROPERTIES

During the period, a total amount of approximately HK\$72,776,000 (1.1.2001 to 31.12.2001: nil) was transferred to properties under development.

In the opinion of the Directors, there was no material change in the carrying amount of the Group's investment properties during the six months ended 30 June 2002.

At 30 June 2002, the Group's investment property situated in Hong Kong with carrying value of approximately HK\$166,060,000 (31.12.2001: HK\$238,625,000) were pledged to secure certain banking facilities granted to the Group.

11. PROPERTIES UNDER DEVELOPMENT/PROPERTIES FOR SALES

Due to stagnant economic condition, the Directors reassessed the recoverable amount of the properties at the balance sheet date with reference to a valuation performed by Vigers Hong Kong Limited, a firm of independent professional valuers, on an open market value basis. Allowance of approximately HK\$107,309,000 in respect of properties under development and approximately HK\$15,210,000 in respect of properties for sales have been charged to the income statement.

At 30 June 2002, certain Group's properties under development/properties for sales with an aggregate carrying value of approximately HK\$148,085,000 (31.12.2001: HK\$122,000,000) were pledged to secure banking facilities granted to the Group.

12. TRADE RECEIVABLES

The Group's trade receivables mainly comprise receivables from the sale of properties. Credit policies for each project are determined with reference to the prevailing market conditions. At the balance sheet date, most of the Group's trade receivables were current within their respective terms of credit and secured by the sold properties, thus there were no significant overdue amounts.

13. **TRADE PAYABLES**

The Group's trade payables mainly comprise costs payable for property development projects which are payable upon completion of work certified by the architects. At the balance sheet date, most of the Group's trade payables were current within their respective terms of credit and there were no significant overdue amounts.

14. **SHARE CAPITAL**

	<i>Notes</i>	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each			
Authorised:			
At 1 January 2002		1,000,000	100,000
Increase on 15 March 2002	(a)	9,000,000	900,000
At 30 June 2002		10,000,000	1,000,000
Issued and fully paid:			
At 1 January 2002		313,316	31,332
Rights issue	(b)	485,706	48,571
Exercise of warrants	(c)	143	14
At 30 June 2002		799,165	79,917

Notes:

(a) Pursuant to an ordinary resolution passed on 15 March 2002, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 9,000,000,000 new shares of HK\$0.1 each in the Company.

(b) On 23 January 2002, 156,658,000 new shares of HK\$0.1 each were issued by way of a rights issue on the basis of one rights share for every two shares at HK\$0.65 per rights share. The net proceeds of approximately HK\$100,500,000 were used to settle part of the cash consideration for the acquisition of an investment property purchased by a subsidiary during year 2001 and to repay the amount due to ultimate holding company.

On 11 April 2002, 329,048,466 new shares of HK\$0.1 each were issued by way of a rights issue on the basis of seven rights shares for every ten shares at HK\$0.65 per rights share. The net proceeds of approximately HK\$212,300,000 were used to form a jointly controlled entity and to acquire a land property.

- (c) During the period, 142,857 shares of HK\$0.1 each were issued for cash at a subscription price of HK\$0.294 per share pursuant to the exercise of the Company's warrants for a total consideration, before expenses, of approximately HK\$42,000.

These shares rank pari passu with all other shares in issue in all respects.

15. RESERVES

	Share premium	Contributed surplus	Leasehold	Statutory		Total
			land and buildings revaluation reserve	reserve fund	Accumulated profits/(losses)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	31,860	47,654	11,418	13,237	45,002	149,171
Issue of shares	12,300	—	—	—	—	12,300
Share issue expenses	(407)	—	—	—	—	(407)
Exercise of share options	1,026	—	—	—	—	1,026
Exercise of warrants	2,694	—	—	—	—	2,694
Released on disposals	—	—	(1,170)	—	—	(1,170)
Deficit on revaluation	—	—	(624)	—	—	(624)
Net loss for the year	—	—	—	—	(36,538)	(36,538)
At 31 December 2001	47,473	47,654	9,624	13,237	8,464	126,452
Rights issue	267,139	—	—	—	—	267,139
Share issue expenses	(1,874)	—	—	—	—	(1,874)
Exercise of warrants	28	—	—	—	—	28
Released on disposals	—	—	(347)	—	—	(347)
Deficit on revaluation	—	—	(9,277)	—	—	(9,277)
Net loss for the period	—	—	—	—	(151,447)	(151,447)
At 30 June 2002	312,766	47,654	—	13,237	(142,983)	230,674

16. **COMMITMENTS**

As at 30 June 2002, the Group had the following commitments contracted for but not provided in the financial statements:

	30.6.2002 HK\$'000	31.12.2001 HK\$'000
Commitments in respect of development expenditure for properties under development	33,602	29,370
Commitments in respect of acquisition of property, plant and equipment	44,188	—
	<u>77,790</u>	<u>29,370</u>

17. **RELATED PARTY TRANSACTION**

On 4 February 2002 a co-operative agreement was entered into between a related company, the major shareholder of the Company and the Group to form a sino-foreign equity joint venture ("JV Company") for the purpose of acquiring a land property from an independent third party and engaging in property development on the said land property. The total investment of the JV Company contributed by the Group amounting to US\$27,000,000 (approximately HK\$210,260,000) of which US\$9,000,000 (approximately HK\$70,250,000) was in form of registered capital and US\$18,000,000 (approximately HK\$140,010,000) was in form of shareholder's loan.

18. **POST BALANCE SHEET EVENTS**

- (a) Pursuant to the agreements entered into between the Group and Shimao Group (Property Investments) Limited ("Shimao Group") dated 29 May 2002, the Group acquired certain properties in Lanzhou and certain properties in Beijing at a total consideration of HK\$150 million from Shimao Group. The Group settled the total consideration by the issue of promissory notes of HK\$150 million at the interest rate of 1.5 per cent per annum with the expiry date falling on or before 31 December 2005. Shimao Group is beneficially owned by Mr. Hui Wing Mau, the Chairman of the Company. These acquisitions were completed after the balance sheet date.
- (b) Subsequent to the balance sheet date, the Group acquired office premises in Hong Kong at a consideration of approximately HK\$49 million.