

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2003

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants 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 (the "Stock Exchange").

2. Principal accounting policies

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

In the current period, the Group has adopted SSAP 12 (Revised) "Income taxes" for the first time. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. The adoption of the above standard has been applied retrospectively but had no significant effect on the results for the current or prior accounting periods.

Other accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2002.

3. SEGMENT INFORMATION

(a) *Business segments*

	Continuing operations					Discontinued operations			
	Property development	Investment holdings	Other	Sub-total	Toll bridge	General trading	Skiing resort	Sub-total	Consolidated
	2003	2003	2003	2003	2003	2003	2003	2003	2003
	HK\$000	HK\$000	HK\$000	H K\$000	HK\$000	H K\$000	HK\$000	H K\$000	HK\$000
Segment revenue:									
Sales to external customers	64,677	-	55	64,732	434	380	-	814	65,546
Segment results	7,230	(19,657)	(217)	(12,644)	(43)	8	(3,474)	(3,509)	(16,153)
Unallocated expenses									-
Loss from operating activities									(16,153)

	Continuing operations					Discontinued operations			
	Property development	Investment holdings	Other	Sub-total	Toll bridge	General trading	Skiing resort	Sub-total	Consolidated
	2002	2002	2002	2002	2002	2002	2002	2002	2002
	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000	HK\$000
Segment revenue:									
Sales to external customers	598	8	-	606	1,653	1,304	-	2,957	3,563
Segment results	(1,643)	(13,830)	-	(15,473)	(673)	(105)	(3,474)	(4,252)	(19,725)
Unallocated expenses									(1,886)
Loss from operating activities									(21,611)

3. SEGMENT INFORMATION (continued)

(b) Geographical segments

	Hong Kong		PRC		Other		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	-	8	65,546	3,555	-	-	65,546	3,563
Segment results	(19,657)	(13,833)	3,504	(5,701)	-	(191)	(16,153)	(19,725)
Unallocated expenses							-	(1,886)
Loss from operating activities							(16,153)	(21,611)

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4. Loss from operating activities

Loss from operating activities has been arrived at after charging/(crediting):

	Six months ended	
	30.6.2003 HK\$'000	30.6.2002 HK\$'000
Amortization of goodwill arising on acquisition of associates	1,775	1,886
Depreciation of fixed assets	4,166	5,251
Provision against a legal claim	8,491	-
Provision for inventories	2,400	-
Provision for doubtful debts written back	(1,387)	-

5. Finance costs

	Six months ended	
	30.6.2003 HK\$'000	30.6.2002 <i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	6,223	5,028
Interest capitalised	(4,496)	–
	1,727	5,028

6. Gain on disposals of subsidiaries

On 12 December 2002, the Company entered into a share transfer agreement with an independent third party for the disposal of certain subsidiaries in the People's Republic of China ("PRC") for a cash consideration of RMB4. The disposal was completed on 6 March 2003 and further details of the transaction were set out in a circular issued by the Company dated 28 January 2003. A summary of the net assets disposed of and the gain on disposals is set out in note 17(a) to the financial statements.

7. Taxation

	Six months ended	
	30.6.2003 HK\$'000	30.6.2002 <i>HK\$'000</i>
Group:		
PRC	1,859	–
Associates:		
PRC	–	–
	1,859	–

7. Taxation *(continued)*

No provision for Hong Kong Profits tax has been made for the period as the Group did not generate any assessable profits arising in Hong Kong during the period (30.6.2002: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

At the balance sheet date, the Group has unused tax losses of approximately HK\$200 million (2002: HK\$190 million) available for offset future profits. No deferred tax asset has been recognized as it is not certain that the tax losses will be utilized in the foreseeable future. Tax losses may be carried forward indefinitely.

No provision for tax is required for the Group's jointly-controlled entity and associates as no assessable profits were earned by the jointly-controlled entity and associates during the period (30.6.2002: Nil).

8. Dividend

The Directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2003 (30.6.2002: Nil).

9. Loss per share

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$14,181,000 (30.6.2002: HK\$26,996,000) and on the weighted average of 2,667,813,819 (30.6.2002: 2,345,421,553) ordinary shares in issue during the period.

10. Movements in fixed assets and properties under development

Other than the movements of fixed assets and properties under development arising from acquisitions and disposals of subsidiaries as mentioned in note 17 to the financial statements, the Group also spent approximately HK\$1,876,000 and HK\$57,775,000 on acquisitions of fixed assets and properties under development, respectively.

11. Interests in associates

	30.6.2003	31.12.2002
	HK\$'000	HK\$'000
Share of net assets	959	959
Goodwill on acquisition	116,238	118,013
Due from associates	2,968	3,904
	120,165	122,876
Provision for impairment	(51,529)	(51,529)
Provision for an amount due from an associate	(178)	(178)
	68,458	71,169

Due to the unavailability of the financial information of associates, the Group has not accounted for any changes in its interests in associates in the current period using the equity method.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

12. Trade receivables

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to two to three months. Credit limits were set for customers. The aged analysis of such debtors is as follows:

	30.6.2003	31.12.2002
	HK\$'000	<i>HK\$'000</i>
Within 3 months	–	52
More than 3 months and less than 6 months	–	11
More than 6 months and less than 1 year	162	–
More than 1 year	87	70
	249	133

13. Trade payables

The aged analysis of such creditors is as follows:

	30.6.2003	31.12.2002
	HK\$'000	<i>HK\$'000</i>
Within 3 months	36,068	–
More than 3 months but less than 6 months	14	2,362
More than 6 months but less than 1 year	8	23
More than 1 year	190	49,059
	36,280	51,444

14. Due to a major shareholder

	30.6.2003	31.12.2002
	HK\$'000	HK\$'000
Loans	357	19,012
Accrued interest	-	35
Current account	-	600
	357	19,647

The loans are unsecured, bearing interest at 5% or prime rate per annum and repayable within one year.

15. Bank loans, other loans and finance lease payable

Other than the decrease of bank loans arising from disposals of subsidiaries as mentioned in note 17(a) to the financial statements, the Group repaid bank loans, others loans and finance lease payable of HK\$12,078,000 and obtained new other loans of HK\$67,165,000 during the period.

16. Share capital

	Ordinary shares of HK\$0.1 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
At 1 January 2003 and 30 June 2003	4,000,000,000	400,000
<i>Issued and fully paid:</i>		
At 1 January 2003	2,620,410,504	262,041
Allotment of new shares for acquisition of a subsidiary	390,000,000	39,000
At 30 June 2003	3,010,410,504	301,041

17. Net cash used in investing activities

Net cash used in investing activities comprise:

(a) *Disposals of subsidiaries*

	Six months ended	
	30.6.2003	30.6.2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	21,569	—
Properties under development	50,943	—
Pledged bank balances	1,086	—
Restricted bank balances	1,193	—
Properties held for sale	51,491	—
Inventories	922	—
Due from associates	1,188	—
Debtors, deposits and prepayments	8,347	—
Pledged bank deposits	67	—
Cash and bank balances	495	—
Creditors, accruals and other payables	(103,461)	—
Due to a minority shareholder of a subsidiary	(4,933)	—
Short-term bank loans	(47,782)	—
Long-term bank loans	(1,089)	—
Minority interests	(586)	—
	(20,550)	—
Negative goodwill released on disposals	15,000	—
Gain on disposals	5,550	—
	—	—
Satisfied by:		
Cash	—	—
Analysis of the net outflow of cash and cash equivalents in respect of disposals of subsidiaries.		
Cash and cash equivalents disposed of with subsidiaries	495	—
Net outflow of cash and cash equivalents in respect of disposals of subsidiaries	495	—

17. Net cash used in investing activities (continued)(b) *Acquisition of a subsidiary*

	Six months ended	
	30.6.2003 HK\$'000	30.6.2002 <i>HK\$'000</i>
Net assets acquired of:		
Fixed assets	37,923	–
Inventories	67	–
Debtors, deposits and prepayments	272	–
Cash and bank balances	152	–
Creditors, accruals and other payables	(44)	–
	38,370	–
Negative goodwill arising on acquisition	(13,800)	–
	24,570	–
Satisfied by:		
Allotment of new shares	39,000	–
Discount on allotment of new shares	(14,430)	–
	24,570	–
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary.		
Cash and cash equivalents acquired of with a subsidiary	152	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	152	–

18. Related party transactions

During the period, the Group had the following material transactions with related parties:

	30.6.2003 <i>HK\$'000</i>	30.6.2002 <i>HK\$'000</i>
(i) Management fee paid to the Major Shareholder	420	–
(ii) Loan interest expenses paid to the Major Shareholder	219	–

(i) On 2 November 2002, the Company entered into an agreement with the Major Shareholder whereby the Major Shareholder shall assist the Company by seconding staff members to manage and advise on the Company's development.

(ii) On 1 November 2002, the Company issued a promissory note to the Major Shareholder for HK\$980,000. The note is unsecured, bearing interest at prime rate in Hong Kong and without fixed repayment terms.

On 18 November 2002, the Company entered into a loan agreement with the Major Shareholder. Under the terms of the loan agreement, the Major Shareholder shall grant the Company loan facilities up to a maximum of HK\$9,000,000 for a period of 12 months. The loans are unsecured and bearing interest at 5% per annum.

On 6 December 2002, the Company entered into a supplemental loan agreement with the Major Shareholder. Under the terms of the supplemental loan agreement, the Major Shareholder shall grant the Company loan facilities up to a maximum of HK\$25,020,000 for a period of 12 months. The loans are unsecured and bearing interest at 5% per annum.

19. Contingent liabilities

	30.6.2003 <i>HK\$'000</i>	31.12.2002 <i>HK\$'000</i>
Guarantees given to banks in respect of mortgage loans made to the purchasers of the Group's properties under development	124,348	61,365

20. Capital commitments

	30.6.2003	31.12.2002
	HK\$'000	HK\$'000
Fixed assets and construction in progress:		
Authorized, but not contracted for	29,918	29,871
Properties under development:		
Authorized and contracted for	69,104	77,445
Authorized, but not contracted for	64,542	177,024
	133,646	254,469
Others:		
Authorized and contracted for	25,811	142,811
Total	189,375	427,151

21. Post balance sheet event

On 4 September 2002, the Company entered into a conditional agreement (“Original Disposal”) with an independent third party purchaser (“Original Purchaser”) to dispose of the land, buildings and related equipment of the skiing resort owned by Heilongjiang Industry Company Limited (“HLJ Industry”), a wholly owned subsidiary of the Company incorporated in PRC, for a consideration of RMB56 million (approximately HK\$52.8 million). So far, neither the consideration had been paid nor the conditions precedent had been fulfilled and therefore, the Original Disposal was cancelled on 13 August 2003 under a cancellation agreement in which both the Original Purchaser and HLJ Industry will not be obliged for any past and/or future damages arising from the Original Disposal.

On 13 August 2003, the Company entered into a new sale and purchase agreement with a new independent third party purchaser in respect of the disposal of 20% of its shareholdings in HLJ Industry together with an option for the purchaser to acquire the remaining 80% of the shareholdings for an aggregate consideration of RMB38.2 million (approximately HK\$36 million). The details of the disposal and the new sale and purchase agreement were set out in a circular of the Company dated 2 September 2003.