

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2003*

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation used in the preparation of the condensed interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2002 except that the Group has adopted the revised SSAP 12 “Income Tax” in respect of income tax which became effective for accounting periods commencing on or after 1 January 2003.

This standard prescribes the basis for accounting and disclosure requirements for both current and deferred tax. The revised SSAP requires deferred tax to be provided in full, using the liability method, on temporary differences, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The adoption of this revised standard has no significant financial impact to the financial statements for the period ended 30 June 2003.

## 2. SEGMENTAL INFORMATION

The Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

**Primary reporting format – business segments**

	Unaudited			
	For the six months ended 30 June			
	Turnover		Operating (loss)/profit	
	2003	2002	2003	2002
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Construction contracts in Hong Kong	2,319	9,689	(25,326)	(9,868)
Construction contracts in the Peoples' Republic of China (the "PRC")	7,416	–	1,407	–
System integration and training fees	–	476	–	(4,335)
Provision of network security services	755	1,171	(51,510)	(19,471)
Hotel operation	2,112	–	(9,936)	–
Money lending	–	–	(9)	11
	<u>12,602</u>	<u>11,336</u>	<u>(85,374)</u>	<u>(33,663)</u>

**Secondary reporting format – geographical segments**

	Unaudited			
	For the six months ended 30 June			
	Turnover		Operating (loss)/profit	
	2003	2002	2003	2002
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hong Kong	2,319	9,689	(25,335)	(9,857)
The PRC	10,283	1,171	(60,039)	(19,471)
Singapore	–	476	–	(4,335)
	<u>12,602</u>	<u>11,336</u>	<u>(85,374)</u>	<u>(33,663)</u>

## 3. FINANCE COSTS

	Unaudited	
	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdraft	–	178
Interest on convertible loan notes and redeemable debentures repayable within five years	1,835	2,552
Others	858	3
	<u>2,693</u>	<u>2,733</u>

## 4. TAXATION

No provision for Hong Kong profits tax is required since the Group has no assessable profit in Hong Kong for the period. No provision for overseas tax is required as the Group has no assessable profit in these places of operation for the period.

No recognition of the potential deferred tax assets relating to tax losses of certain subsidiaries has been made as the recoverability of the potential deferred tax assets is uncertain.

## 5. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$72,200,000 (2002: HK\$36,056,000) and on the weighted average number of 1,953,681,587 (2002: 1,621,274,793) ordinary shares in issue during the period.

The diluted loss per share for period ended 30 June 2003 and 2002 are not shown as the ordinary shares issuable under outstanding share options and convertible loan notes were anti-dilutive.

## 6. INTANGIBLE ASSETS

	<b>Goodwill</b>	<b>Patents and</b>	<b>Hotel</b>	<b>Total</b>
	<b>(Unaudited)</b>	<b>trademarks</b>	<b>operating</b>	<b>(Unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>licence</i>	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2002	1,868	188,172	16,977	207,017
Less: Amortisation	(238)	(49,088)	(7,276)	(56,602)
	<u>1,630</u>	<u>139,084</u>	<u>9,701</u>	<u>150,415</u>
At 30 June 2003	<u>1,630</u>	<u>139,084</u>	<u>9,701</u>	<u>150,415</u>

## 7. ACCOUNTS RECEIVABLE

The Group has a policy of allowing its trade customers with credit period normally between 30 to 60 days or terms in accordance with construction contracts. The ageing analysis is as follows:

	<b>At 30 June</b>	At 31 December
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 3 months	1,776	2,169
3 months to 6 months	-	-
6 months to 1 year	576	-
Over 1 year	4,767	4,867
Less: Provision for doubtful debt	(4,767)	(4,767)
	<u>2,352</u>	<u>2,269</u>

## 8. ACCOUNTS PAYABLE

	<b>At 30 June</b>	At 31 December
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 3 months	1,090	1,155
3 months to 6 months	325	2,491
6 months to 1 year	402	-
Over 1 year	11,629	10,810
	<u>13,446</u>	<u>14,456</u>

## 9. SHARE CAPITAL

	Unaudited	
	Ordinary shares of HK\$0.10 each	Par value
	Number of shares	HK\$'000
<b>Authorised:</b>		
At 31 December 2002 and 30 June 2003	<u>4,000,000,000</u>	<u>400,000</u>
<b>Issued and fully paid:</b>		
At 1 January 2002	1,498,504,554	149,850
Placement of ordinary shares	290,000,000	29,000
Shares issued for conversion of convertible loan notes	<u>151,955,830</u>	<u>15,196</u>
At 31 December 2002	1,940,460,384	194,046
Share issued for Debt Equity Swap	<u>108,774,440</u>	<u>10,877</u>
At 30 June 2003	<u>2,049,234,824</u>	<u>204,923</u>

In May 2003, the Group has entered into settlement agreements (“Debt Equity Swap”) with 16 creditors whereby these creditors agreed to accept 108,774,440 new shares of the Company at HK\$0.10 each as full and final settlements of the aggregate liabilities due to them amounting to HK\$10,877,444.

**10. CONVERTIBLE LOAN NOTES****(i) Redeemable debentures**

On 27 November 2001, the Company issued redeemable debentures in the aggregate amount of HK\$201,800,000 as consideration of acquisition of certain subsidiaries. These debentures bear interest at 6% per annum with maturity date three years from the date of issuance. If the debentures are redeemed in whole or in part within one year from the date of issuance, no interest will be payable on the part that are so redeemed.

During the period, a total of HK\$800,000 debentures was redeemed as part of Debt Equity Swap in May 2003 (2002: HK\$68 million). The aggregate amount of the debentures outstanding as at 30 June 2003 and 31 December 2002 was HK\$52,000,000 and HK\$52,800,000 respectively.

**(ii) Convertible loan notes**

On 26 March 2002, the Company issued convertible loan notes in the aggregate amount of HK\$35,000,000 as consideration of acquisition of a subsidiary. These convertible loan notes bear interest at 3% per annum with maturity date three years from the date of issuance and are repayable after three years from the date of issuance or convertible into shares of the Company at the conversion price of HK\$0.1268 at any time after the date of issuance.

There was no conversion of convertible loan notes during the period. The aggregate amount of the convertible loan notes outstanding as at 30 June 2003 and 31 December 2002 was HK\$17,000,000.

**11. NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

Reconciliation of loss from operating activities before taxation to net cash (outflow)/inflow from operating activities:

	<b>Unaudited</b>	
	<b>For the six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss from operating activities before taxation	<b>(91,948)</b>	(36,396)
Adjustments for:		
Amortisation of intangible assets	<b>56,602</b>	21,309
Amortisation of premium on acquisition of associated companies	<b>3,883</b>	–
Depreciation of property, plant and equipment	<b>813</b>	1,191
Share of results of associated companies	<b>(2)</b>	–
Provision for doubtful debts	<b>6,366</b>	926
Loss on disposal of property, plant and equipment	<b>136</b>	582
Loss on disposal of a club membership	<b>193</b>	–
Interest income from bank deposits	<b>(1)</b>	(53)
Finance costs	<b>2,693</b>	2,733
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Operating loss before working capital changes	<b>(21,265)</b>	(9,708)
Increase in gross amounts due from customers on construction contracts	<b>(733)</b>	(1,909)
(Increase)/decrease in accounts receivable	<b>(83)</b>	353
Decrease in loans receivable	<b>–</b>	15,000
Decrease in prepayments, deposits and other receivables	<b>9,341</b>	36,173
Increase/(decrease) in accounts payable	<b>4,306</b>	(5,916)
Increase in accruals and other payables	<b>4,392</b>	2,096
Decrease in other non-current liabilities	<b>(1,902)</b>	–
Increase/(decrease) in gross amounts due to customers on construction contracts	<b>529</b>	(1,655)
Decrease in amount due to a related company	<b>–</b>	(1,164)
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Net cash (outflow)/inflow generated from operations	<b>(5,415)</b>	33,270
Net interest paid	<b>(2,692)</b>	(2,680)
Hong Kong profits tax paid	<b>(3)</b>	(19)
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Net cash (outflow)/inflow from operating activities	<b>(8,110)</b>	30,571
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## 12. COMMITMENTS

As at 30 June 2003, the Group had the following operating lease commitments:

	<b>At 30 June 2003 (Unaudited) HK\$'000</b>	At 31 December 2002 (Audited) HK\$'000
Total future minimum lease payments under non-cancellable operating leases in respect of Land and buildings:		
Within one year	1,168	2,138
In the second to fifth years, inclusive	<u>852</u>	<u>1,328</u>
	<u><b>2,020</b></u>	<u>3,466</u>
Office equipment:		
Within one year	208	208
In the second to fifth years, inclusive	<u>173</u>	<u>276</u>
	<u><b>381</b></u>	<u>484</u>
	<u><b>2,401</b></u>	<u>3,950</u>

The Group had no significant capital commitments as at 30 June 2003 and 31 December 2002.



### 13. CONTINGENT LIABILITIES

As at 30 June 2003, the Group had the following contingent liabilities:

- (i) The Company gave letters of indemnity amounting to approximately HK\$9.9 million to certain insurance companies for their issuance of surety bonds, which are inherent in the nature of the Group's construction business. A summary judgment was entered into against the Company on 9 September 2003 for providing security to an insurance company for its issuance of a surety bond amounting to approximately HK\$8.7 million. The Company intends to appeal against the decision. Counsel is of the opinion that the Company stands a fair chance of success in the appeal.
- (ii) The Company provided guarantees to certain developers/main contractors in the PRC in respect of certain construction and renovation contracts entered into by a wholly owned subsidiary of the Company. Subsequent to the period end, claims were received from developers/main contractors in respect of two construction and renovation projects in the PRC amounting to approximately HK\$17.3 million. The Company is taking legal advice regarding these claims. As the outcome cannot be reliably estimated, no provision for contingent losses has been made in the financial statements.
- (iii) The Group is undergoing a number of legal proceedings with its customers or sub-contractors in respect of alleged contractual entitlements. The amount of claim is approximately HK\$11.5 million. As the outcome of the litigation cannot be reliably estimated, no provision for contingent losses has been made in the financial statements.

Two wholly-owned subsidiaries of the Company were involved in litigation in relation to the interior fitting out works to hotel and services apartment of Beijing Oriental Plaza. On 28 May 2003, the legal actions in Hong Kong were mutually agreed to be stayed and the venue was transferred to the Peoples' Court in Beijing, the PRC, the judgment of which will be binding on both parties. The litigation in Beijing is still proceeding and hearing was postponed to later this year. The aggregate amount of claims by Beijing Oriental Plaza Co. Ltd and Beijing Construction Holdings Company Limited against the two subsidiaries of the Company was approximately HK\$42.7 million. As the outcome of the litigation cannot be reliably estimated, no provision for contingent losses has been made in the financial statements.

A wholly owned subsidiary of the Company was involved in litigation in relation to alleged legal services provided by China Top Consultants Limited. Judgment was entered against the Company on 4 August 2003 in the sum of approximately HK\$3.2 million plus interest of approximately HK\$0.65 million. Provisions of these amounts have been made in the financial statements.

- (iv) On 15 August 2002, Mr. Alfred Siu ("Mr. Siu"), an ex-director of the Company issued a writ against the Company allegedly suffered loss and damages relating to purported share options exercised in 1999 amounting to approximately HK\$18.8 million. On 4 July 2003, a summary judgment was awarded against the Company in the amount of HK\$18.8 million plus interest and costs. On 8 August 2003, the Company received a statutory demand from Mr. Siu demanding immediate payment of HK\$25.8 million,

being the amount awarded by the court (including interest calculated up to 8 August 2003). In the event that the Company is required to pay such amount, the financial resources of the Group will be significantly constrained. Based on the legal advice received, the Company stands a fairly good chance in an appeal and will vigorously appeal against the decision which will be heard on 6 October 2003. Therefore, no provision has been made in the financial statements.

- (v) On 16 August and 6 September 2003, two writs were received from a landlord of a wholly owned subsidiary of the Company in respect of unpaid rent amounting to approximately HK\$0.47 million of which the Company is a guarantor of the subsidiary's performance. This amount has been provided in the financial statements.

A writ was received on 8 August 2003 from a supplier of services against the Company amounting to approximately HK\$0.43 million. This amount has been provided in the financial statements.

A number of other writs were also received from suppliers of goods and services against a wholly owned subsidiary of the Company amounting to approximately HK\$0.89 million. This amount has been provided in the financial statements.

#### **14. PROPOSED CAPITAL REORGANISATION, CREDITORS' SCHEME OF ARRANGEMENT, OPEN OFFER AND APPLICATION FOR WHITEWASH WAIVER**

In response to summary judgment awarded against the Company and the statutory demand by Mr. Siu, the Company announced on 2 September 2003 that the board of directors proposed that the Company:

- (i) implement a capital reorganisation of the Company ("Capital Reorganisation") which will involve (a) a reduction in the nominal value of each issued share from HK\$0.10 to HK\$0.0005; (b) a subdivision of each authorised and unissued share into 200 adjusted shares of HK\$0.0005 each; (c) cancellation of the entire amount standing to the credit of the share premium account of the Company; and (d) consolidation of every 20 adjusted shares of HK\$0.0005 each into 1 consolidated share of HK\$0.01 each ("Consolidated Share");
- (ii) implement a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda and under section 166 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) between the Company and the scheme creditors (the "Creditors' Scheme") which will result in the indebtedness and liabilities owing to scheme creditors ("Total Indebtedness") as at the date for determination of entitlements of the scheme creditors (the "Scheme Record Date") being discharged in full and final settlement by way of a combination of the cash payment and the issuance of Consolidated Shares ("Creditors Shares") to the scheme creditors. Pursuant to the Creditors' Scheme, for every HK\$1 of valid claim, the Scheme Creditors will receive (a) cash payment of not more than HK\$0.1; and (b) not more than 1.5 Creditors Shares (the exact amount of cash payment and number of Creditors Shares will depend on the amount of Total Indebtedness as at the Scheme Record Date) which will be issued credited as fully paid at HK\$0.1 per Creditors Share; and

- (iii) raise a minimum of approximately HK\$23.1 million (before expenses) by way of the issue of not less than 512,308,705 new Consolidated Shares (“Offer Shares”) on the basis of an assured allotment of five Offer Shares for the equivalent of every Consolidated Share held by shareholders other than overseas shareholders (the “Qualifying Shareholders”) at the subscription price of HK\$0.045 per Offer Share (the “Open Offer”). Qualifying Shareholders will not be allotted any Offer Shares in excess of their assured allotments.

The implementation of the Capital Reorganisation, the Creditors’ Scheme and the Open Offer is inter-conditional to each other.

Euro Concord Assets Limited (“Euro Concord”), which is wholly and beneficially owned by Mr. Tam, an executive director of the Company, currently holds 215,000,000 shares (equivalent to 10,750,000 Consolidated Shares), representing approximately 10.49% of the existing issued share capital of the Company. Euro Concord has irrevocably undertaken to the Company to apply or procure applications for its full assured allotment under the Open Offer, amounting to 53,750,000 Offer Shares.

Main Faith Limited (“Main Faith”), which is also wholly and beneficially owned by Mr. Tam, has agreed to underwrite the Open Offer (the “Underwriter”). In the event that Main Faith is required to subscribe in full the underwritten shares pursuant to the Underwriting Agreement, the shareholding of Mr. Tam would increase from approximately 10.49% to approximately 67.4% of the issued share capital of the Company as enlarged by the Creditors Shares and the Offer Shares. An application will be made by Mr. Tam to the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (“Executive”) for a waiver from the obligation to make a mandatory offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers (the “Code”) pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Code (“Whitewash waiver”). The Open Offer is subject to the satisfaction of certain conditions, in particular, it is subject to, among other things, the Capital Reorganisation and the Creditors’ Scheme becoming unconditional, the Whitewash Waiver being granted by the Executive and the Underwriter not terminating the Underwriting Agreement in accordance with its terms.