

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2004*

### **1. BASIS OF PRESENTATION**

The consolidated financial statements for the six months ended 30 June 2004 have been extracted from the audited financial statements of the Company for the six months ended 30 June 2004 dated 28 August 2004. The consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### **2. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2003.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **3. TURNOVER**

Turnover represents the aggregate of sales of properties, net of applicable business tax and rental income.

	<b>Six months ended 30 June 2004 HK\$'000</b>	Six months ended 30 June 2003 HK\$'000
Sales of properties	—	—
Rental income	<b>1,966</b>	872
	<b>1,966</b>	872

#### **Business tax**

The Group is subject to business tax at 5% on its turnover and other revenue.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is currently organized into two operating divisions — property development and property investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

#### Six months ended 30 June 2004

	<b>Property development</b>	<b>Property investment</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>—</u>	<u>1,966</u>	<u>1,966</u>
Results			
Segment results	<u>—</u>	<u>(5,025)</u>	(5,025)
Other operating income			14
Unallocated corporate expenses			<u>(9,476)</u>
Loss from operations			(14,487)
Finance costs			<u>(4,929)</u>
Loss before taxation			(19,416)
Taxation credit			<u>1,084</u>
Loss after taxation			<u>(18,332)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

**Six months ended 30 June 2003**

	<b>Property development</b>	<b>Property investment</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>—</u>	<u>872</u>	<u>872</u>
Results			
Segment results	<u>(21,975)</u>	<u>(10,571)</u>	(32,546)
Other operating income			31
Unallocated corporate expenses			<u>(17)</u>
Loss from operations			(32,532)
Finance costs			<u>(11,545)</u>
Loss before taxation			(44,077)
Taxation charge			<u>—</u>
Loss after taxation			<u>(44,077)</u>

No geographical segment information of the Group is shown as the operating business of the Group is solely carried out in Beijing, The People's Republic of China (the "PRC").

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2004*

**5. OTHER OPERATING INCOME**

	<b>Six months ended 30 June 2004 HK\$'000</b>	Six months ended 30 June 2003 HK\$'000
Interest income	<b>14</b>	55
Other income	<b>33</b>	92
	<hr/> <b>47</b> <hr/>	<hr/> 147 <hr/>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 6. FINANCE COSTS

	<b>Six months ended 30 June 2004 HK\$'000</b>	Six months ended 30 June 2003 HK\$'000
Interest on:		
— Bank loans and overdrafts wholly repayable within five years	<b>13,663</b>	13,477
— Other loans wholly repayable within five years	<b>1,338</b>	44
— Finance leases	<b>61</b>	13
	<hr/>	<hr/>
Total borrowing costs	<b>15,062</b>	13,534
Less: Amounts capitalised	<b>(10,133)</b>	(1,989)
	<hr/>	<hr/>
	<b>4,929</b>	11,545
	<hr/> <hr/>	<hr/> <hr/>

Borrowing cost capitalized during the six months ended 30 June 2004 are calculated by application of a capitalization rate of 6.0% (six months ended 30 June 2003: 6.5%) to expenditure on qualifying assets.

### 7. DEPRECIATION

During the period, depreciation of HK\$1,348,000 (six months ended 30 June 2003: HK\$1,271,000) was charged in respect of the Group's property, plant and equipment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

### 8. TAXATION

	<b>Six months ended 30 June 2004 HK\$'000</b>	Six months ended 30 June 2003 HK\$'000
Income tax charge	—	—
Land appreciation tax charge	<b>(925)</b>	—
	<b>(925)</b>	—
Deferred tax credit	<b>2,009</b>	—
	<b>1,084</b>	—

#### Income tax

The group companies operating in Hong Kong are subject to profits tax at the rate of 17.5% for the six months ended 30 June 2004 (six months ended 30 June 2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group has no assessable income for Hong Kong Profits Tax for the six months ended 30 June 2004 and 2003.

The group companies operating in the PRC are subject to enterprise income tax at a rate of 33% (six months ended 30 June 2003: 33%) during the period. No provision for PRC enterprise income tax has been made as the Group has no assessable income for PRC tax for the six months ended 30 June 2004 and 2003.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2004*

**8. TAXATION** *(Continued)*

**Land appreciation tax**

Land appreciation tax is levied at progressive rates ranging from 30% to 60% on the balance of the proceeds received on transfer of real properties after deducting certain items including consideration paid for acquisition of land use rights, land development costs incurred, construction costs and taxes paid in relation to the transfer of real properties.

The charge for the period is reconciled to loss per the consolidated income statement as follows:

	<b>Six months ended 30 June 2004</b>		Six months ended 30 June 2003	
	<b>HK\$'000</b>	<b>%</b>	<b>HK\$'000</b>	<b>%</b>
Loss before taxation	<b><u>(19,416)</u></b>		<b><u>(44,077)</u></b>	
Tax at the PRC income tax rate of 33%	<b>(6,407)</b>	<b>(33.0)</b>	(14,545)	(33.0)
Tax effect of tax losses not recognized	<b>3,842</b>	<b>19.8</b>	12,605	28.6
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>1,495</b>	<b>7.7</b>	1,940	4.4
Others	<b><u>(14)</u></b>	<b><u>(0.1)</u></b>	<u>—</u>	<u>—</u>
Tax effect and effective tax rate for the period	<b><u>(1,084)</u></b>	<b><u>(5.6)</u></b>	<u>—</u>	<u>—</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 9. DIVIDENDS

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2004 (six months ended 30 June 2003: HK\$nil).

### 10. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	<b>Six months ended 30 June 2004 HK\$'000</b>	Six months ended 30 June 2003 HK\$'000
Loss for the period	<b><u>18,355</u></b>	<u>44,077</u>
<b>Number of shares</b>		
Number of shares for the purposes of basic earnings per share	<b><u>271,758,000</u></b>	<u>271,758,000</u>

No diluted loss per share for the six months ended 2004 and 2003 has been presented as the exercise of the Company's outstanding options would result in decrease in loss per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 11. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
At 1 January 2003	156,852
Revaluation increase	<u>662</u>
At 31 December 2003 and 30 June 2004	<u><u>157,514</u></u>

Investment properties were revaluated at their open market value at 30 June 2004 and 31 December 2003 by Messrs. RHL Appraisal Limited, an independent valuer.

The treatment of the revaluation surplus of the investment properties are as follows:

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Revaluation increase dealt within:		
— Income statement	<u>—</u>	<u>662</u>
Surplus arising from revaluation of investment properties	<u><u>—</u></u>	<u><u>662</u></u>

The investment properties are located in Beijing, the PRC and held under medium term lease.

HK\$47,099,000 (as at 31 December 2003: HK\$27,325,000) of the Group's investment properties are rented out under operating leases.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 12. PROPERTY, PLANT AND EQUIPMENT

	<b>Land and buildings</b>	<b>Furniture fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>COST OR VALUATION</b>				
At 1 January 2004	86,411	3,242	5,040	94,693
Additions	—	983	1,587	2,570
Disposals	(5,421)	(40)	—	(5,461)
At 30 June 2004	80,990	4,185	6,627	91,802
Comprising:				
At cost	—	4,185	6,627	10,812
At valuation	80,990	—	—	80,990
	80,990	4,185	6,627	91,802
<b>DEPRECIATION</b>				
At 1 January 2004	—	2,425	4,643	7,068
Provided for the period	1,080	121	147	1,348
Eliminated on disposals	(68)	(16)	—	(84)
Eliminated on revaluation	(1,012)	—	—	(1,012)
At 30 June 2004	—	2,530	4,790	7,320
<b>NET BOOK VALUES</b>				
At 30 June 2004	80,990	1,655	1,837	84,482
At 31 December 2003	86,411	817	397	87,625

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2004*

### **12. PROPERTY, PLANT AND EQUIPMENT** *(Continued)*

The land and buildings are located in Beijing, the PRC and held under medium term lease.

The Group's land and buildings were revalued at their open market value at 30 June 2004 by Messrs. RHL Appraisal Limited, an independent valuer, at a total value of HK\$80,990,000 (as at 31 December 2003: HK\$86,411,000). The directors resolved to adopt the valuation in the financial statements for the six months ended 30 June 2004.

The net book value of property, plant and equipment included an amount of HK\$1,584,000 (as at 31 December 2003: HK\$125,000) in respect of assets held under finance leases.

Had the land and buildings not been revalued, they would have been included in the consolidated balance sheet at historical cost less accumulated depreciation at HK\$29,890,000 (as at 31 December 2003: HK\$33,068,000).

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2004*

### **13. ACCOUNTS RECEIVABLE**

The terms of payment in respect of the Group's sales of properties are in accordance with the terms of respective sales contracts.

The aged analysis of the accounts receivable as at the balance sheet date is as follows:

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Within 3 months	—	233
4 - 6 months	—	—
7 - 9 months	—	—
10 - 12 months	—	—
Over 1 year	<b>18,527</b>	18,527
	<hr/> <b>18,527</b> <hr/>	<hr/> 18,760 <hr/>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 14. ACCOUNTS PAYABLE

The aged analysis of accounts payable as at balance sheet date is as follows:

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Within 3 months	<b>38,919</b>	9,534
4 - 6 months	<b>11,998</b>	—
7 - 9 months	—	—
10 - 12 months	—	5,189
Over 1 year	<b>170,337</b>	192,891
	<b>221,254</b>	207,614

Certain creditors have taken legal action to recover the amounts due by the Group and certain properties of the Group are frozen by the court in the PRC following their actions.

### 15. RESTRICTED CASH

As at 30 June 2004, pursuant to the terms of certain guarantee agreements, cash of approximately HK\$161,000 (as at 31 December 2003: approximately HK\$118,000) were designated as guarantee against mortgage facilities provided by a bank to the buyers of the Group's properties. Accordingly, the use of the cash balances is restricted.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 16. OTHER BORROWINGS

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Interest free (Note b)	<b>152,280</b>	142,000
Interest bearing (Note c)	<b>45,000</b>	45,000
	<b>197,280</b>	187,000
	<b>197,280</b>	187,000

*Notes:*

- (a) The above loans represent the loans to the Group pursuant to the sale agreement of Tong Sun Limited and are secured on the shares in the Company held by a director and a former director. The repayment of the loans is in priority to the preferred dividend payment by Tong Sun Limited to the Group.
  
- (b) The loan is interest free and for a term of 2 years from June 2003 repayable on maturity and will be applied exclusively to finance the working capital requirement of the property under development for sale. As at 30 June 2004, the Group is negotiating for renewing the loan. The directors are of the opinion that the Group can obtain support from the lender to renew the loan which will not be repaid in the following year.
  
- (c) The loan is for a term of 2 years from June 2003 and bears interest at the rate of 6% per annum and is repayable in one lump sum upon maturity and will be applied to finance the general working capital and settlement of accounts payable of the Group. As at 30 June 2004, the Group is negotiating for renewing the loan. The directors are of the opinion that the Group can obtain support from the lender to renew the loan which will not be repaid in the following year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30 June 2004***17. SHARE CAPITAL**

	<i>No. of shares</i>	<i>HK\$'000</i>
Shares of HK\$0.001 each		
Authorised:		
Balance as at 1 January 2003, 31 December 2003 and 30 June 2004	<u>500,000,000</u>	<u>500</u>
Issued and fully paid:		
Balance as at 1 January 2003, 31 December 2003 and 30 June 2004	<u>271,758,000</u>	<u>272</u>



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **18. CONTINGENT LIABILITIES**

- (a) In October 2002, one of the creditors of the Group filed a notice of arbitration against the PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290 million, which relates to certain land development cost for the property of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against the PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group was then at the final stage of finalizing the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms would form part of the master standstill agreement. The directors were confident that the creditor would sign the agreement. Under the agreement, the Group is not liable to pay the aforesaid interest penalty of approximately RMB68 million. Accordingly, the aforesaid sum was not provided in 2002.

During the year ended 31 December 2003, the Group entered into the master standstill agreement with its creditor and bankers under which the aforesaid interest penalty was waived. The waiver is subject to the condition that the Group is able to repay the land development cost in accordance with agreed repayment schedule. Should the Group be unable to comply with repayment schedule, the interest penalty will be become payable. The directors consider that the Group has sufficient funds to comply with the repayment and accordingly no provision for the penalty is necessary.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2004*

**18. CONTINGENT LIABILITIES** *(Continued)*

- (b) During the year ended 31 December 2002, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million. On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. The directors of the Group, based on the opinion of the independent legal advisers, considered that the claim from the purchaser will be overruled and no provision for the loss is necessary.
- (c) During the year ended 31 December 2003, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of approximately RMB15 million paid together with interest. The directors of the Group, based on the opinion of the legal advisers, considered that the claim made by the purchaser is not valid and are of the opinion that the claim will not cause any material loss to the Group. No provision for the loss in the financial statements is necessary.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

## 19. CAPITAL AND CONSTRUCTION COMMITMENTS

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
At the balance sheet date, the Group had the following capital and construction commitments:		
Capital expenditure in relation to the property, plant and equipment contracted but not provided for	—	—
Expenditure in relation to the property under development contracted but not provided for	<b>27,923</b>	49,025
Expenditure in relation to the property under development authorised but not contracted for	<b>703,738</b>	654,890
	<b><u>731,661</u></b>	<u>703,915</u>

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2004*

### **20. PLEDGE OF ASSETS**

At 30 June 2004, the Group had pledged its properties under development with an aggregate net book value of approximately HK\$824,715,000 (as at 31 December 2003: approximately HK\$744,400,000) to secure bank loans granted and amounts payable in respect of respective land development cost totalling approximately HK\$419,094,000 (as at 31 December 2003: approximately HK\$522,718,000). Certain investment properties and land and buildings have been frozen by the court in the PRC following the legal action taken by creditors of the Group.

### **21. COMPARATIVE FIGURES**

Certain comparative figures for six months ended 30 June 2003 have been reclassified to conform to the current interim period's presentation.