

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2004

1. BASIS OF PREPARATION

The Interim Financial Statements has been prepared in accordance with the Statement of Standard Accounting Practice 25 “Interim Financial Reporting” (“SSAP 25”) issued by the Hong Kong Society of Accountants and with the Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The interim financial statements have been prepared on the going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group had net current liabilities of approximately HK\$298 million as at 30 June 2004. Of this amount approximately HK\$260 million relates to the current portion of certain secured bank loans which is due for renewal on 30 September 2004. The directors have been actively negotiating the renewal of these loans with bankers to obtain better terms and interest rates than the Group is currently paying. Although the final legal documentation and detailed terms have not been finalised and agreed, the directors are confident these loans will be renewed, and on more favourable terms based on discussions to date. The directors’ optimism is based on the fact that the group made a profit of approximately HK\$16,048,000 in the current period (30 June 2003: profit of approximately HK\$14,179,000), had net assets of approximately HK\$1,310 million on 30 June 2004, and had a revaluation surplus on its investment properties of approximately HK\$300 million during the period.

In light of the above, the directors believe that the Group will be able to meet its obligations in full as they fall due for the foreseeable future provided that the Group continues to enjoy the support of its bankers, its related party and its ultimate holding company.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

2. SEGMENTAL INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format, with each segment organized and managed separately.

Business segments

Property development	:	Property development and sale of properties
Property leasing	:	Property rental including signage rental
Building management and other services	:	Providing property management, repair and maintenance services
Urban infrastructure	:	Urban infrastructure development

The following table represents revenue and results information for the six months ended 30 June 2004 for the Group's business segments:

	Six months ended 30 June 2004						Total HK\$'000
	Property development HK\$'000	Property leasing HK\$'000	Building management and other services HK\$'000	Urban infrastructure HK\$'000	Others HK\$'000	Elimination HK\$'000	
Segment revenue							
External customers	—	50,047	4,516	8,419	232	—	63,214
Inter-segments	—	1,673	—	—	—	(1,673)	—
	—	51,720	4,516	8,419	232	(1,673)	63,214
Segment results	—	48,999	2,872	(2,577)	(2,432)	—	46,862
Inter-segments	—	2,057	551	—	—	(2,608)	—
Contribution from operations	—	51,056	3,423	(2,577)	(2,432)	(2,608)	46,862
Unallocated income and expenses							(4,809)
Profit from operation							42,053
Finance costs							(19,607)
Share of profits less losses of associates							(19)
Taxation							(6,407)
Minority interests							28
Net profit for the period							16,048

2. SEGMENTAL INFORMATION (CONTINUED)

	Six months ended 30 June 2003						
	Property development HK\$'000	Property leasing HK\$'000	Building management and other services HK\$'000	Urban infrastructure HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue							
External customers	60	42,893	4,124	—	3,891	—	50,968
Inter-segments	—	1,703	—	—	703	(2,406)	—
	60	44,596	4,124	—	4,594	(2,406)	50,968
Segment results	(51)	42,538	3,108	—	(8,121)	—	37,474
Inter-segments	—	(1,000)	—	—	1,018	—	18
Contribution from operations	(51)	41,538	3,108	—	(7,103)	—	37,492
Unallocated income and expenses							7,025
Profit from operation							44,517
Finance costs							(30,508)
Share of profits less losses of associates							6
Taxation							—
Minority interests							164
Net profit for the period							14,179

Geographical segments

The following table shows the distribution of the Company's consolidated revenue by geographical market:

	Sales revenue by geographical market Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Hong Kong	54,795	50,968
Other parts of the Peoples's Republic of China ("PRC")	8,419	—
	63,214	50,968

3. OTHER REVENUE

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Commission income	218	—
Interest income	28	7
Disposal of subsidiary income	—	50
Miscellaneous income	1,542	10,540
	1,788	10,597

4. PROFIT FROM OPERATION

Profit from operation is arrived at after charging:

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation	406	731
Staff cost (including directors' remuneration)	7,630	6,263
Amortisation of goodwill	37	99
Amortisation of intangible assets	100	—
Cost of inventories recognised as expenses	4,378	—
Operating lease rental	686	135

5. FINANCE COSTS

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	10,207	17,218
Interest on other borrowings wholly repayable within five years	9,400	13,290
	19,607	30,508

6. TAXATION

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
The Charge comprises:		
Hong Kong profits tax		
— Current year	7	—
— Deferred taxation	6,400	—
	6,407	—

Hong Kong profits tax is provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit arising or derived from Hong Kong.

The Group's subsidiaries established and operating in the PRC are exempted from PRC enterprise income tax for the first two profitable years of operations, and thereafter, are eligible for a 50% relief from PRC enterprise income tax for the following three years under the Income Tax Law of the PRC. For the six months ended 30 June 2004, no provision for PRC enterprise income tax has been made as the Group's PRC subsidiaries were still within the tax exemption period.

Deferred tax has been provided for at 17.5% that is expected to apply in the period when the liability is settled or the asset is realised.

7. INTERIM DIVIDEND

The directors do not recommend any interim dividend for the six months ended 30 June 2004. (30 June 2003: Nil)

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the unaudited consolidated profit attributable to shareholders of approximately HK\$16,048,000 for the period (30 June 2003: approximately HK\$14,179,000).

The basic earnings per share is based on the weighed average of 106,005,071 shares (30 June 2003: 82,582,014 shares adjusted for the effect of bonus issue) in issue during the six months ended 30 June 2004.

The diluted earnings per share is based on 106,005,071 shares (30 June 2003: 82,582,014 shares adjusted for the effect of bonus issue) which is the weighted average number of shares in issue during the six months ended 30 June 2004 plus the weighted average of 463,170 shares (30 June 2003: 1,464,000 shares) deemed to be issued if all outstanding warrants and share options granted by the Company were exercised.

9. INVESTMENT PROPERTIES

	30 June 2004 (Unaudited) HK\$'000
Valuation	
As at 1 January 2004	2,243,390
Surplus arising on revaluation	300,000
Balance as at 30 June 2004	2,543,390

All investment properties are situated in Hong Kong and held under long-term lease.

The investment properties of the Group were revalued at 30 June 2004 by an independent professional valuer, B.I. Appraisals Limited, on an open market value basis. The surplus arising on revaluation has been credited to investment property revaluation reserve.

10. DEBTORS, PREPAYMENTS AND DEPOSITS

(a) Aging analysis of the trade receivables

As at balance sheet date, trade debtors included in debtors, prepayments and deposits were approximately HK\$27,539,000 (31 December 2003: HK\$25,959,000). The aging of these debtors was set out below:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0-30 days	19,891	23,300
31-90 days	1,574	1,434
Over 90 days	6,074	1,225
	27,539	25,959

- (b) For the year ended 31 December 2003, the deposit of HK\$5,000,000 (the "Deposit") was originally paid by a wholly owned subsidiary of the Company (the "Subsidiary") in the course of the development of certain properties in Yuen Long, New Territories. The other parties (the "Defaulting Parties") of such development were in default and the Deposit was repayable. The Deposit became a debt owing to the Subsidiary. Enforcement proceedings were proceeded during the period.

The balance was transferred to properties held for development during the period ended 30 June 2004.

11. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

All the trade payables of HK\$17,060,000 (31 December 2003: HK\$29,825,000) were within one year as at the balance sheet date.

12. BORROWINGS

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Loans		
Bank loans — secured	1,032,224	1,047,229
Other loans	94,445	106,647
Amount due to ultimate holding company	147,581	202,707
	1,274,250	1,356,583
Obligations under finance leases	—	117
	1,274,250	1,356,700
Less: Current portion due within one year included under current liabilities	(313,432)	(352,918)
Non-current portion	960,818	1,003,782

As at 30 June 2004, borrowings are repayable as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within 1 year or on demand	313,432	352,918
After 1 year but within 2 years	40,284	250,738
After 2 year but within 5 years	920,534	753,044
	960,818	1,003,782
Grand total	1,274,250	1,356,700

13. SHARE CAPITAL

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
<i>Authorized:</i>		
5,000,000,000 ordinary shares of HK\$0.10 each	500,000	500,000
	Number of Shares	Nominal value HK\$'000
	<i>Note</i>	
<i>Issued and fully paid:</i>		
As at 1 January 2004	69,698,443	6,970
Share options/Warrants exercised	631,725	63
New placing (a)	13,939,688	1,394
Loan capitalization (b)	17,000,000	1,700
Bonus issue (c)	20,253,971	2,025
As at 30 June 2004	121,523,827	12,152

Notes:

- (a) On 13 February 2004, the controlling shareholder of the Company, Ko Bee Limited ("Ko Bee") subscribed for 13,939,688 shares at HK\$2.20 per share in pursuant to an agreement with Quam Securities Company Limited.
- (b) Pursuant to a special resolution passed on 5 May 2004, Ko Bee subscribed for 17,000,000 shares at HK\$2.55 per shares in accordance with the terms of the Loan Capitalisation Agreement dated 17 March 2004.
- (c) On 8 June 2004, the Company made a bonus issue of shares on the basis of one bonus share for every five shares of HK\$0.10 each held by the shareholders of the Company whose names appeared on the register of members of the Company on 31 May 2004.

14. ANALYSIS OF CASH AND CASH EQUIVALENTS

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Bank balance and cash	36,943	49,523

15. RELATED PARTY TRANSACTIONS

- (a) On 31 December 2003, a wholly owned subsidiary of the Company entered into a tenancy agreement with a related company, in which the Chairman and an executive director of the Company have interests, for leasing a property situated at Guangzhou, PRC for office purpose at monthly rental and management charge at HK\$61,097 for a period of 12 months from 1 December 2003 until 30 November 2004.
- (b) On 25 March 2003, the unsecured loan facility with a principal amount of approximately HK\$214,756,000 originally granted by the controlling shareholder of the Company, Ko Bee on 21 November 2000 was renewed and extended until 24 March 2005 on the same principal terms and conditions. As at the balance date, the outstanding principal amount and interest was approximately HK\$147,581,000.
- (c) On 27 May 2003, a related company, in which the Chairman and an executive director of the Company have interests, advanced to a wholly owned subsidiary of the Company an unsecured revolving credit facility up to a maximum total principal amount of HK\$50,000,000 with interest rate at prime lending rate for Hong Kong dollars plus 2% per annum. The final maturity date is on 26 May 2006. As at the balance sheet date, approximately HK\$17,800,000 was utilised.
- (d) On 13 February 2004, Ko Bee entered into an agreement with Quam Securities Company Limited and the Company for the placement of 5,500,000 existing shares at a placing price of HK\$2.20 each and the subscription of 13,939,688 new shares at the same price. The total consideration of approximately HK\$30,670,000 were satisfied partly by offsetting against the shareholder's loan as mentioned in paragraph (b) above for an amount of approximately HK\$18,570,000 and the balance of approximately HK\$12,100,000 by cash payment.

15. **RELATED PARTY TRANSACTIONS (CONTINUED)**

- (e) On 17 March 2004, the Company entered into a loan capitalisation agreement with Ko Bee for the subscription by Ko Bee of 17,000,000 shares of HK\$0.10 each of the Company at the subscription price of HK\$2.55 each. The total consideration of HK\$43,350,000 was set-off against the shareholder's loan as mentioned in paragraph (b) above.
- (f) A subsidiary of the Company entered into a tenancy agreement with a related company which is in association with the Chairman and an executive director of the Company for leasing a residential property situated in Hong Kong for a period of 3 years commencing from 1 May 2004 and expiring on 30 April 2007 at the monthly rental of HK\$80,000.
- (g) On 17 June 2004, the Company entered into an agreement (the "Agreement") with Ko Bee for the subscription by Ko Bee of the convertible bonds of the Company in an aggregate principal amount of HK\$148,499,490.77 which was set-off against the outstanding principal and interest of the shareholder's loan as mentioned in paragraph (b) above calculated up to and inclusive of the date before the Completion Date (as defined in the Agreement). Upon full conversion of the convertible bonds, 88,392,554 conversion shares will be issued at the conversion price of HK\$1.68 each.
- (h) Interest accrued on amount due to ultimate holding company was approximately HK\$6,036,000 (30 June 2003: approximately HK\$7,188,000) during the six months ended 30 June 2004.

16. OPERATING LEASE ARRANGEMENTS

The Group leases out all its investment properties under operating leases with average lease terms of 3 years. The future aggregate minimum rental receivable under non-cancellable operating leases are as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within one year	68,770	58,297
In the second to fifth years inclusive	43,480	37,591
	112,250	95,888

17. COMMITMENTS

(a) Operating lease commitments

As at 30 June 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of two properties, details as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within one year	1,265	672
In the second to fifth year inclusive	1,760	—
	3,025	672

17. **COMMITMENTS (CONTINUED)**

(b) **Capital commitments**

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Commitments in respect of capital contribution to subsidiaries in the PRC	329,471	145,080

Out of the above total capital commitments, approximately HK\$74,400,000 (31 December 2003: approximately HK\$13,600,000) will be due for contribution to the subsidiaries in the PRC in the coming twelve months.

18. **POST BALANCE SHEET EVENT**

At the special general meeting held on 30 July 2004, the Agreement with Ko Bee in relation to the subscription by Ko Bee for the convertible bond of the Company as described above in paragraph 15(g) was duly approved by the shareholders.