

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 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 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public 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 2003.

### 2. CAPITAL REORGANISATION, CREDITORS’ SCHEME OF ARRANGEMENT, OPEN OFFER AND WHITEWASH WAIVER

In response to the summary judgment awarded against the Company and the statutory demand issued by Mr. Alfred Siu Wing Fung, an ex-chairman of the Company, the Company announced on 1 September 2003 that the Board of Directors proposed that the Company:

- (i) implemented a capital reorganization of the Company (“Capital Reorganisation”) which involved (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 Shares”);
- (ii) implemented 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) (the “Creditors’ Scheme”) between the Company and the scheme creditors (the “Scheme Creditors”) which resulted in the indebtedness and liabilities owing to the 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 received (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 depend on the amount of Total Indebtedness as at the Scheme Record Date) which were issued credited as fully paid at HK\$0.10 per Creditors Shares; and
- (iii) raise approximately HK\$23.1 million (before expenses) by way of the issue of 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 were 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 was inter-conditional to each other.

The Capital Reorganisation and the Creditors' Scheme became effective and the Open Offer became unconditional and that all conditions precedent to the Restructuring Proposal have been fulfilled and the Restructuring Proposal was completed on 27 April 2004. After the Capital Reorganisation and the Creditors' Scheme became effective and the Open Offer became unconditional, Mr. Tam Jin Rong, beneficially held 410,935,123 shares, representing 51.7% of the total number of issued shares of 794,770,446 of the Company.

### 3. 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

	For the six months ended 30 June			
	Turnover		Operating profit/(loss)	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Construction contracts in Hong Kong	-	2,319	(103)	(3,962)
Construction contracts in the People's Republic of China (the "PRC")	12,965	7,416	1,418	1,407
Provision of network security services	-	755	-	(51,510)
Hotel operation	-	2,112	-	(9,120)
Money lending	-	-	(9)	(9)
	<u>12,965</u>	<u>12,602</u>	<u>1,306</u>	<u>(63,194)</u>
Gain arising from debts discharged under Creditors' Scheme			100,306	-
Gain on deconsolidation of a subsidiary under winding-up Court order			50,235	-
Gain on disposal of subsidiaries			516	-
Unallocated expenses			(5,284)	(22,180)
Operating profit/(loss) from operating activities			147,079	(85,374)
Share of profits less losses of associated companies			-	2
Amortisation of premium on acquisition of associated companies			-	(3,883)
Finance costs			(811)	(2,693)
Profit/(loss) from operating activities before taxation			146,268	(91,948)
Taxation			(329)	-
Profit/(loss) from operating activities after taxation			145,939	(91,948)
Minority interest			-	19,748
Profit/(loss) attributable to shareholders			<u>145,939</u>	<u>(72,200)</u>

Secondary reporting format – geographical segments

	For the six months ended 30 June			
	Turnover		Operating profit/(loss)	
	2004	2003	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Hong Kong	–	2,319	(112)	(3,971)
The PRC	<u>12,965</u>	<u>10,283</u>	<u>1,418</u>	<u>(59,223)</u>
	<u>12,965</u>	<u>12,602</u>	<u>1,306</u>	<u>(63,194)</u>
Gain arising from debts discharged under Creditors' Scheme			<u>100,306</u>	–
Gain on deconsolidation of a subsidiary under winding-up Court order			<u>50,235</u>	–
Gain on disposal of subsidiaries			<u>516</u>	–
Unallocated expenses			<u>(5,284)</u>	<u>(22,180)</u>
Operating profit/(loss) from operating activities			<u>147,079</u>	<u>(85,374)</u>
Share of profits less losses of associated companies			–	2
Amortisation of premium on acquisition of associated companies			–	(3,883)
Finance costs			<u>(811)</u>	<u>(2,693)</u>
			<u>146,268</u>	<u>(91,948)</u>

4. **GAIN ARISING FROM DEBTS DISCHARGED UNDER CREDITORS' SCHEME**

On 19 February 2004, the majority of the Scheme Creditors approved the Creditors' Scheme under which all indebtedness owned by the Company to the Scheme Creditors on the Scheme Record Date were released, discharged and fully settled.

The Creditors' Scheme was sanctioned by the High Court of Hong Kong and the Supreme Court of Bermuda on 16 and 19 March 2004, respectively. The total indebtedness admitted by the Scheme Administrator under the Creditors' Scheme was discharged in full and final settlement by way of a combination of the cash payment of an aggregate amount of HK\$12 million from the proceeds of the Open Offer and issuance of 180,000,000 Creditors Shares at HK\$0.1 per Creditors Shares to the Scheme Creditors, resulted a gain amounted to approximately HK\$100.3 million.

## 5. GAIN ON DECONSOLIDATION OF A SUBSIDIARY UNDER WINDING-UP COURT ORDER

The gain on deconsolidation of a subsidiary under winding-up Court order represents the gain arising on deconsolidation of Prosperity Construction and Decoration Limited ("PCDL"), a subsidiary of the Company, upon PCDL received a winding-up order issued by the High Court of Hong Kong on 9 June 2004. PCDL had a substantial capital deficiency and had an insignificant scale of operation. The winding-up of PCDL did not have material financial and operational impacts to the Group.

## 6. FINANCE COSTS

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on loan notes and redeemable debentures repayable within five years	604	1,835
Others	207	858
	<u>811</u>	<u>2,693</u>

The interest on loan notes and redeemable debentures repayable within five years and an amount of approximately HK\$91,000 out of the total other finance costs had been settled under the Creditors' Scheme.

## 7. TAXATION

The amount of taxation in the condensed consolidated income statement represents:

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Hong Kong profits tax	-	-
PRC income taxes	329	-
	<u>329</u>	<u>-</u>

No provision for Hong Kong profits tax is required since the Group has no assessable profit in Hong Kong for the Period. In 2003, the Hong Kong Government enacted a change in the profit tax rate from 16% to 17.5% for the year of assessment 2003/04. PRC income taxes are calculated at tax rate applicable in the PRC in which the subsidiaries of the Group are assessable for tax.

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

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$145,939,000 (2003: loss of HK\$72,200,000) and on the weighted average number of 345,910,956 (2003: 97,684,079 (restated) adjusted to reflect the share consolidation in December 2003) ordinary shares in issue during the Period.

There is no potential dilutive shares during the Period.

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

## 9. 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 2004 (Unaudited) HK\$'000</b>	At 31 December 2003 (Audited) HK\$'000
Less than 3 months	2,522	1,693
Over 1 year	-	4,767
Less: Provision for doubtful debt	-	(4,767)
	<u>2,522</u>	<u>1,693</u>

## 10. ACCOUNTS PAYABLE

	<b>At 30 June 2004 (Unaudited) HK\$'000</b>	At 31 December 2003 (Audited) HK\$'000
Less than 3 months	3,100	1,371
3 months to 6 months	-	17,270
6 months to 1 year	40	127
Over 1 year	680	13,441
	<u>3,820</u>	<u>32,209</u>

## 11. SHARE CAPITAL

	Unaudited	
	Number of shares '000	Par value HK\$ '000
<b>Authorised:</b>		
Ordinary shares of HK\$0.10 each at 31 December 2002 and 30 June 2003	4,000,000	400,000
Ordinary shares of HK\$2.0 each at 31 December 2003	200,000	400,000
Share subdivision ( <i>note i</i> )	39,800,000	–
Ordinary shares of HK\$0.01 each at 30 June 2004	40,000,000	400,000
<b>Issued and fully paid:</b>		
Ordinary shares of HK\$0.10 each at 31 December 2002	1,940,461	194,046
Share issued for Debt Equity Swap	108,774	10,877
Ordinary shares of HK\$0.01 each at 30 June 2003	2,049,235	204,923
Ordinary shares of HK\$2.0 each at 31 December 2003	102,462	204,923
Capital reduction ( <i>note ii</i> )	–	(203,898)
Issue of Offer Shares ( <i>note iii</i> )	512,308	5,123
Issue of Creditors Shares upon settlement of debts ( <i>note iv</i> )	180,000	1,800
Ordinary shares of HK\$0.01 each at 30 June 2004	794,770	7,948

### Notes:

- (i) Pursuant to a resolution passed at a special general meeting on 1 December 2003, all of the authorised but unissued shares of HK\$2.00 each in the capital of the Company be sub-divided into two hundred shares of HK\$0.01 each.
- (ii) Pursuant to a resolution passed at a special general meeting on 1 December 2003, the issued share capital of the Company was reduced by cancelling paid up capital to the extent of HK\$1.99 on each issued share such that the nominal value of all the issued shares was reduced from HK\$2.00 to HK\$0.01 each.
- (iii) On 27 April 2004, 512,308,705 Offer Shares of HK\$0.01 each, ranking *pari passu* in all respects with the existing ordinary shares of the Company were issued at a subscription price of HK\$0.045 per Offer Shares under the Open Offer.
- (iv) On 27 April 2004, 180,000,000 Creditors Share of HK\$0.01 each, ranking *pari passu* in all respects with the existing ordinary shares of the Company were issued at HK\$0.1 per Creditors Shares to the Scheme Creditors for the settlement of the Total Indebtedness owed by the Company to the Scheme Creditors.

## 12. LEASE COMMITMENTS

As at 30 June 2004, the Group had the following operating lease commitments:

	<b>At 30 June 2004 (Unaudited) HK\$'000</b>	At 31 December 2003 (Audited) HK\$'000
Total future minimum lease payments under non-cancellable operating leases in respect of		
Land and buildings:		
Within one year	81	369
In the second to fifth years, inclusive	—	225
	<u>81</u>	<u>594</u>
Office equipment:		
Within one year	—	208
In the second to fifth years, inclusive	—	69
	<u>—</u>	<u>277</u>
	<u>81</u>	<u>871</u>

## 13. CONTINGENT LIABILITIES

As at 30 June 2004, the Group did not have any material contingent liabilities.

## 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the Period's presentation.