

Innovo

Leisure Recreation Holdings Limited
澤新遊樂控股有限公司*
(Incorporated in Bermuda with limited liability)



Interim Report 2004

The board of Directors (the “Directors”) of Innovo Leisure Recreation Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2004 together with the unaudited comparative figures for the corresponding period in 2003.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004 (2003: Nil).

FINANCIAL REVIEW

For the six months ended 30th June, 2004, no turnover of the Group was generated since the results of the Group’s amusement park in Panyu, the People’s Republic of China (the “PRC”) had been de-consolidated from the Group’s account since 1st July, 2003. The loss from operations and loss attributable to the shareholders of the Group for the six months ended 30th June, 2004 was HK\$2.5 million. The Group incurred expenses of about HK\$1.7 million to set up and initiate the carnival business for the six months ended 30th June, 2004.

OPERATION REVIEW

The Group’s principal business is the operation of amusement and theme parks. By the very nature of this business, its success depends on the attractions, the facilities of the amusement park and also the number of visitors. Like many businesses in the hospitality industry, the choice of location is always an important consideration in determining the profitability and viability of the business (e.g. hotels, restaurants, events and exhibitions etc.). By the same token, the ability to secure new and suitable locations (and in some cases, replacing existing locations) can be a decisive factor in maintaining the success of the business concerned.

As mentioned previously in the Company’s previous public announcements and 2003 annual report, a fixed location amusement park would require regular and heavy investment to maintain the public with sufficient new attraction and entertainment to sustain visitor traffic. And the level of investment to create

constant new attraction would impose a substantial financial burden and therefore a more cost effective way would be to organize a series of itinerant carnivals or in other words, a moving amusement park. The Group has, since March 2004, started to diversify its income by engaging in its itinerant carnival amusement park business (the “Carnival Business”). The Group’s Carnival Business has since then become a substantial part of its core business where the major difference between a fixed location amusement park, such as the Group’s amusement park in Panyu, and a moving amusement park is the location change, and in other aspects, they are very much the same in business nature.

The Directors are confident and consider the Carnival Business to be viable and attractive. The modus operandi and business dynamics of the Carnival Business are, in all material aspects (including crowd management, safety and security control, operation and maintenance of machine rides, token utilisation, staff training, food stalls management, operational management, financial skills and weather effect etc.), substantially similar to any amusement parks operated at fixed locations. More important, the Carnival Business has the advantage to operate at locations at a time when the weather is relatively better locally. And the Group has incurred considerable amount of time, manpower and expenses of approximately HK\$50 million to secure the equipment and machine rides, game stalls for the Group’s Carnival Business. All these assets could be deployed to operate in a fixed location amusement park if the Group chooses to do so when attractive opportunities arise. The Dalian carnival commenced its soft operations on 4th September, 2004 with a tentative closing date of around 15th October, 2004 (i.e. after the major National holiday week). The Dalian carnival is currently employing over 400 people with over 30 European ride operators.

The Group is working on a busy and active agenda to operate the Carnival Business in at least 3 locations every 12 months. The Directors maintain an open mind about the possibility of operating amusement/theme parks in fixed locations should any such propositions be commercially attractive. They will also continue to monitor the situation of Panyu SammyLand amusement park (which remains as an asset of the Company).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2004, the Group had net current assets of HK\$28.8 million (As at 31st December, 2003: HK\$31.5 million).

The Group has no interest-bearing loan as at 30th June, 2004 (As at 31st December, 2003: HK\$3.5 million). The Group's borrowings were made in Hong Kong dollar.

Subsequent to the period end of June 2004, the Group has obtained bank loans of approximately HK\$50 million to finance its carnival business and general working capital. The Chairman and Managing Director, Mr. Chan Chak Mo, has agreed to provide personal guarantee and the controlling shareholder, Puregain Assets Limited, has agreed to pledge of Company's shares, to secure these HK\$50 million bank loans. In addition, Mr. Chan Chak Mo and Puregain Assets Limited, the controlling shareholder, have provided financial support to the Group to enable it to meet in full its financial obligations.

MATERIAL LITIGATION

The Company was served of a district court writ by a design company, an independent third party. The claim is in respect of design services fees allegedly under a service agreement entered into by the Company and the design company. The claim was in respect of approximately HK\$408,000, together with interest and legal costs. The Company believes that it has good ground to defend this claim.

The Company is taking legal proceedings at the district court to set aside a default judgement of HK\$960,000 obtained by a solicitor's firm, an independent third party, in respect of a cheque allegedly drawn in favour of the solicitor's firm issued by the former directors of the Company. The Company believes that it has good ground to defend such claim.

The Company is opposing a winding-up petition filed by an independent third party with a number of supporting creditors including the ex-directors of the Company. On 20th September, 2004, the solicitor's firm mentioned above applied to the court to substitute as the petitioner to wind up the Company alleging that the Company is indebted to them in a total sum of HK\$960,000 as mentioned above. The Company is opposing to such application and the hearing for such application has been suspended pending the outcome of the set-aside proceedings at the district court mentioned above.

Save as described herein, the Group had not involved in any material litigation or arbitration in 2004.

CHARGES ON GROUP ASSETS

As at 30th June, 2004, the Group did not have any charges on assets (As at 31st December, 2003: Nil).

CONTINGENT LIABILITIES

As at 30th June, 2004, the Group had contingent liabilities of approximately HK\$6,941,000 (As at 31st December, 2003: HK\$408,000).

CURRENCY EXPOSURE

As at 30th June, 2004, the Group did not have any outstanding hedging instrument. The Group should continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

EMPLOYEES

As at 30th June, 2004, the Group employed a total of 15 full time staff in Hong Kong and China. The Group currently employs, a total of 37 full-time staff and 400 part-time staff in Hong Kong and China. The remuneration policies are reviewed on a periodical basis by the current management.

OUTLOOK

The Group's existing business, being the Carnival Business, is substantially the same as those of its fixed location amusement park business. With substantial assets including the Group's intangible asset, being its permit to conduct 20 carnivals in the PRC in the next 5 years, the Directors believe that the Group's existing business is promising and its intangible asset is a valuable right of the Group (which has not been booked in the Group's published financial statements), which right has the potential to appreciate in value overtime with the progress of the Carnival Business.

DIRECTORS' INTERESTS AND LONG/SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS

At 30th June, 2004, the interests and long/short positions of the Directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Hong Kong Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position

Ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of ordinary shares held	Percentage of issued share capital of the Company
Mr. Chan Chak Mo	Beneficial owner	373,962,000	62.33%

Note: These shares, representing approximately 62.33% of the issued share capital of the Company, of which 51.33% are held by Puregain Assets Limited, a company beneficially wholly-owned by Mr. Chan Chak Mo and balance of 11.0% are held by Cash Smart Enterprises Limited, a company beneficially owned by Madam Leong On Kei, Angela and Mr. Chan Chak Mo.

Save as disclosed herein, none of the Directors nor their associates had any interests or long/short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2004.

SHARE OPTIONS

Pursuant to the share option scheme adopted by the Company on 13th June, 2002, the Company may grant options to the directors, non-executive directors, suppliers of goods and services, customers, advisors and consultants, shareholders of the Company or any of its subsidiaries for the primary purpose of providing incentives to them, to subscribe for shares in the Company with the payment of HK\$1 per offer. The total number of shares in respect of which

options may be granted shall not exceed 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year shall not exceed 1% of the issued share capital of the Company. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's issued share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares. The share options are exercisable for a period not later than 10 years from the date of grant.

No share options were granted since adoption of the scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests and long/short positions in the issued share capital of the Company.

Long/short positions

Ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of issued share capital of the Company
Cash Smart Enterprises Limited	Beneficial owner (Note a)	66,000,000	11%
Mr. Au Kai Kwong	Beneficial owner	51,000,000	8.5%
Global Trend Holdings Limited	Beneficial owner (Note b)	38,340,000	6.39%

Notes:

- (a) Cash Smart Enterprises, a company incorporated in the British Virgin Islands, is beneficially owned by Madam Leong On Kei, Angela and Mr. Chan Chak Mo. It is taking legal proceedings to require Mr. Li Tat Ting, a former shareholder, to buy all its 11% equity interest in the Company under a deed of put option dated 31st July, 2002 at a total price of HK\$36.4 million.
- (b) Global Trend Holdings Limited, a company incorporated in the British Virgin Islands, is wholly owned by Mr. Tsang Chi Wai, Eric, a former director of the Company.

Save as disclosed above, the Company has not been notified of any other relevant interests or long/short positions in the issued share capital of the Company as at 30th June, 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th June, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The members of the audit committee of the Company comprise Mr. Cheung Hon Kit and Mr. Chui Sai Cheong, both being independent non-executive Directors of the Company.

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discuss internal controls and financial reporting matters including the review of the unaudited interim financial statements.

CORPORATE GOVERNANCE

The Directors are able to conform that for the period after the current management taking control of the Company from 8th April, 2004 to 30th June, 2004, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

On behalf of the Board

Chan Chak Mo

Chairman and Managing Director

Hong Kong, 28th September, 2004

Deloitte.

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INDEPENDENT REVIEW REPORT

TO THE DIRECTORS OF INNOVO LEISURE RECREATION HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the directors of Innovo Leisure Recreation Holdings Limited to review the interim financial report set out on pages 10 to 16.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700 “Engagements to review interim financial reports” (“SAS 700”) issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty relating to certain receivables

In forming our opinion, we have considered the adequacy of the disclosure in notes 8 and 11 to the interim financial report which explains that included in the balance sheet of the Group are amounts of HK\$29,323,000 and HK\$38,682,000 due from a trade debtor and the former director. The Group has filed claims against the trade debtor and the former director in the Hong Kong High Court to recover the amounts. Since the claims are still pending for hearing, the directors consider they are unable to determine the final outcome of the claims at this preliminary stage. Accordingly, no allowance in respect of either of these amounts has been made in the financial statements. We consider this fundamental uncertainty has been adequately disclosed in the interim financial report and our review conclusion is not modified on this respect.

Modified review conclusion arising from disagreement about accounting treatment

A subsidiary 番禺飛圖夢幻影城有限公司 (Panyu Fantasy Film City Limited) (“PFFCL”), which is under the control of a local court in Mainland China as explained in note 1 to the interim financial report, was de-consolidated from the consolidated financial statements of the Group for the year ended 31st December, 2003. However, this accounting treatment was not in accordance with Statement of Standard Accounting Practice No. 32 “Consolidated financial statements and accounting for investments in subsidiaries” issued by the Hong Kong Institute of Certified Public Accountants because as at 31st December, 2003, in our opinion, the Group retained the ability, by virtue of its equity interest in PFFCL, to exercise effective control. Accordingly, in our opinion, the results, cash flows and changes in equity of PFFCL should have been consolidated throughout the period up to May 2004 and any loss on de-consolidation recognised. In the absence, however, of the financial statements of PFFCL for this period, it is not practicable for us to determine the effect on the interim financial report of the failure to properly account for PFFCL.

On the basis of our review which does not constitute an audit, with the exception of the matter described in the preceding paragraph, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2004.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30th June, 2003 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28th September, 2004

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	1.1.2004	1.1.2003
	to	to
	30.6.2004	30.6.2003
	(Unaudited)	(Unaudited)
<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	–	12,986
Other operating income	252	664
Changes in inventories	–	(67)
Depreciation and amortisation	(17)	(8,096)
Staff costs	(673)	(6,232)
Other operating expenses	(2,087)	(11,706)
	<hr/>	<hr/>
Loss from operations	(2,525)	(12,451)
Finance costs	–	(2,297)
	<hr/>	<hr/>
Net loss for the period	<u>(2,525)</u>	<u>(14,748)</u>
Loss per share		
– Basic	6 <u>(0.42) cents</u>	<u>(2.46) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2004

	NOTES	30.6.2004 (Unaudited) HK\$'000	31.12.2003 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	7	170	–
Current assets			
Trade and other receivables	8	31,645	31,620
Amount due from a former director		38,682	38,682
Bank balances and cash		386	–
		70,713	70,302
Current liabilities			
Other payables		18,186	22,321
Amount due to ultimate holding company		6,949	–
Amount due to a director		4,543	–
Amount due to a former shareholder		10,698	10,698
Taxation		1,500	1,500
Other short-term loans		–	4,251
		41,876	38,770
Net current assets		28,837	31,532
Net assets		29,007	31,532
Capital and reserves			
Share capital		6,000	6,000
Reserves		23,007	25,532
Shareholders' funds		29,007	31,532

The interim financial report on pages 10 to 16 were approved and authorised for issue by the Board of Directors on 28th September, 2004 and are signed on its behalf by:

CHAN CHAK MO
Chairman and Managing Director

CHAN CHUN YIN, JOSEPH
Vice Chairman

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Share capital	Share premium	Negative goodwill	Special reserve	Retained profits (deficit)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2003	6,000	18,197	39,304	34,800	170,568	268,869
Net loss for the period	-	-	-	-	(14,748)	(14,748)
At 30th June, 2003	<u>6,000</u>	<u>18,197</u>	<u>39,304</u>	<u>34,800</u>	<u>155,820</u>	<u>254,121</u>
At 1st January, 2004	6,000	18,197	-	34,800	(27,465)	31,532
Net loss for the period	-	-	-	-	(2,525)	(2,525)
At 30th June, 2004	<u>6,000</u>	<u>18,197</u>	<u>-</u>	<u>34,800</u>	<u>(29,990)</u>	<u>(29,007)</u>

The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital and share premium of subsidiaries acquired pursuant to a group reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 2002.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	1.1.2004 to 30.6.2004 (Unaudited) <i>HK\$'000</i>	1.1.2003 to 30.6.2003 (Unaudited) <i>HK\$'000</i>
Net cash used in operating activities	(6,668)	(4,712)
Net cash used in investing activities	(187)	(2,086)
Net cash from (used in) financing activities	7,241	(6,957)
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	386	(13,755)
Cash and cash equivalents at 1st January	–	17,649
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	<u>386</u>	<u>3,894</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>386</u>	<u>3,894</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

番禺飛圖夢幻影城有限公司 (Panyu Fantasy Film City Limited) (“PFFCL”) was a wholly-owned subsidiary of the Company which was de-consolidated in the financial statements for the year ended 31st December, 2003. In May 2004, after receiving the application for recovery of debts from creditors, the local court has taken control of all the chattels and properties of PFFCL to settle creditors’ claims.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31st December, 2003.

3. SEGMENT INFORMATION

The Company’s operation is regarded as a single segment, being an enterprise engaged in the operation of amusement facilities.

Analysis of the Group’s turnover and results has not been presented as they are substantially generated from Mainland China.

4. TAXATION

No provision for taxation has been made as the Group had no assessable profit for the period.

5. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004.

6. LOSS PER SHARE

The calculation of the basic loss per share for the six months ended 30th June, 2004 is based on the net loss for the period of HK\$2,525,000 (1.1.2003 to 30.6.2003: HK\$14,748,000) and on the 600,000,000 shares in issue during the period.

No diluted loss per share has been presented as there were no potential dilutive shares for the period.

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2004, the Group incurred approximately HK\$187,000 on acquisition of property, plant and equipment.

8. TRADE AND OTHER RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable from 30 to 180 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Age		
– 181 to 365 days	–	7,156
– over 365 days	29,323	22,167
	<hr/>	<hr/>
Trade receivables	29,323	29,323
Other receivables	2,322	2,297
	<hr/>	<hr/>
	31,645	31,620
	<hr/> <hr/>	<hr/> <hr/>

In June 2004, the Group filed a claim to the Hong Kong High Court against a trade debtor for an amount of HK\$29,323,000 arisen from the sales of theme park tickets to it. In the opinion of the directors, since the claim is still pending for hearing, it is unable to determine the final outcome of the claim at such preliminary stage. Accordingly, no allowance in respect of this balance has been made in the interim financial statements.

9. CAPITAL COMMITMENTS

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the interim financial statements in respect of the acquisition of property, plant and equipment	17,399	–
	<hr/> <hr/>	<hr/> <hr/>

10. CONTINGENT LIABILITIES

At 30th June, 2004, the Company is a party to various claims totalling HK\$6,941,000. In the opinion of the directors, ultimate resolution of these claims would not have a significant effect on the Group's results and financial position.

11. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to 30th June, 2004:

- (a) In July 2004, the Group has acquired a subsidiary with a right to launch and carry out at least 20 carnivals in the PRC for a term of 5 years. The Group has entered into a lease agreement with an overseas independent third party to rent amusement rides on a profit-sharing basis. In addition, the Group has also rented several mechanical rides for the carnivals in the PRC.
- (b) The Group filed a claim to the Hong Kong High Court against a former director, Mr. Li Tat Ting for an amount of HK\$38,682,000 in July 2004. In the opinion of the directors, since the claim is still pending for hearing, it is unable to determine the final outcome of the claim at such preliminary stage. Accordingly, no allowance in respect of this balance has been made in the interim financial statements.
- (c) In August 2004, the Group has obtained banking facilities of HK\$50 million.
- (d) In September 2004, the Group filed claims to the Hong Kong High Court against certain former directors, Messrs. Li Tat Ting, Cheung Fuk Chuen, Lawrence, Lam Kam Fai, Tang Tsan Yin and Gary Lee, inter alias, for an aggregate amount of approximately HK\$218.1 million due to their breaches of duty of care.