

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed 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 with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

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

### 3. SEGMENTAL INFORMATION

#### Business segments

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information.

Pursuant to the group reorganisation as set out in the circular of the Company dated 31st October, 2003, the hotel operation engaged by the Group in prior years was discontinued on 12th December, 2003.

An analysis of the Group's turnover and contribution to operating results by business segment is presented below:

#### Six months ended 30th June, 2004

	Continuing operations			Consolidated HK\$'000
	Property sale and development HK\$'000	Property rental HK\$'000	Other operations HK\$'000	
TURNOVER				
External sales	—	5,978	—	5,978
RESULT				
Segment result	(17,013)	1,899	—	(15,114)
Unallocated corporate expenses				(6,209)
Loss from operations				(21,323)
Finance costs				(3,422)
Loss before taxation				(24,745)

3. SEGMENTAL INFORMATION (Continued)  
Business segments (Continued)  
Six months ended 30th June, 2003

	Continuing operations			Discontinuing	Consolidated HK\$'000
	Property sale and development HK\$'000	Property rental HK\$'000	Other operations HK\$'000	operation Hotel operation HK\$'000	
TURNOVER					
External sales	–	5,491	–	51,749	57,240
RESULT					
Segment result	(4,727)	(487)	(625)	(140,529)	(146,368)
Unallocated corporate expenses					(12,090)
Loss from operations					(158,458)
Finance costs					(19,877)
Loss before taxation					(178,335)

**Geographical segments**

An analysis of the Group's turnover by geographical location of its customers is presented below:

	Turnover	
	Six months ended 30th June, 2004 HK\$'000	2003 HK\$'000
People's Republic of China ("PRC"), other than Hong Kong	5,978	32,480
Hong Kong	–	24,760
	<u>5,978</u>	<u>57,240</u>

4. IMPAIRMENT LOSS AND REVALUATION DEFICIT

	Six months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000
Impairment loss and revaluation deficit recognised in respect of:		
– properties held for sale	16,650	–
– investment properties	–	1,317
– properties under/held for development	–	4,400
– properties under construction	–	527
– hotel properties	–	110,259
– payment for investments	–	18,000
	<u>16,650</u>	<u>134,503</u>

## 5. LOSS FROM OPERATIONS

	Six months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation and amortisation		
Owned assets	26	11,115
Assets held under finance leases	-	343
Unrealised loss on investments in securities	-	137
Release of negative goodwill, included in other operating income	-	(442)
	-	-

## 6. TAXATION

No provision for Hong Kong Profits Tax or taxation in other jurisdictions has been made in the condensed consolidated financial statements as the Group had no assessable profit for both periods.

The taxation for the six months ended 30th June, 2003 represented deferred taxation credit.

## 7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$24,756,000 (HK\$163,516,000 for the six months ended 30th June, 2003) and on 277,408,596 ordinary shares (277,408,596 ordinary shares for the six months ended 30th June, 2003) in issue during the period.

The weighted average number of ordinary shares used for the purpose of calculating basic loss per share for the period ended 30th June, 2003 has been retrospectively adjusted for the effect of the consolidation of every ten ordinary shares of US\$0.002 each into one share of US\$0.02 each, as disclosed in note 15.

The computation of diluted loss per share for the period ended 30th June, 2003 did not assume the conversion of the convertible notes since this conversion would result in a decrease in the loss per share for the period ended 30th June, 2003.

No diluted loss per share has been presented as there is no potential ordinary shares in issue during the period.

## 8. INVESTMENT PROPERTIES

In the opinion of the directors, there is no material difference between the carrying amount and the open market value of investment properties as at 30th June, 2004.

## 9. PROPERTIES, PLANT AND EQUIPMENT

Included in property, plant and equipment are properties under construction of approximately HK\$105 million (31.12.2003: HK\$103 million) which is located in the PRC.

## 10. PROPERTIES UNDER/HELD FOR DEVELOPMENT

During the period, the Group incurred expenditure of approximately HK\$8.1 million on the property development projects in the PRC.

In August 2004, the Group disposed of certain properties held under development located in Huizhou, the PRC through the disposal of certain subsidiaries, as disclosed in note 19(a).

**11. PROPERTIES HELD FOR SALE**

The directors of the Group have re-assessed the carrying amount of the properties held for sale with reference to the sales and purchase agreements entered into by the Group in August 2004 as disclosed in note 19(b). An impairment loss of approximately HK\$16,650,000 (Nil for the six months ended 30th June, 2003) has been identified and recognised in the income statement for the six months ended 30th June, 2004.

**12. TRADE AND OTHER RECEIVABLES**

The Group has a policy of agreeing credit terms with each of its trade customers in the light of the individual customer merit.

Included in trade and other receivables are trade receivables of approximately HK\$157,000 (31.12.2003: HK\$128,000), all of which are aged within 90 days.

**13. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of approximately HK\$1,950,000 (31.12.2003: HK\$1,623,000), all of which are aged within 90 days. The remaining balance mainly comprises construction cost payable of approximately HK\$28,644,000 (31.12.2003: HK\$28,186,000) and interest payable of approximately HK\$3,422,000 (31.12.2003: Nil).

**14. LOAN FROM A SUBSTANTIAL SHAREHOLDER**

The loan from a substantial shareholder is unsecured, interest free and repayable on demand.

**15. SHARE CAPITAL**

	Number of shares	Value US\$'000
Authorised		
At 1st January, 2003	19,000,000,000	380,000
Subdivided into 10 shares of US\$0.002 each	<u>171,000,000,000</u>	<u>–</u>
Ordinary shares of US\$0.002 each	190,000,000,000	380,000
Consolidation of shares	<u>(171,000,000,000)</u>	<u>–</u>
At 31st December, 2003 and at 30th June, 2004, ordinary shares of US\$0.02 each	<u><u>19,000,000,000</u></u>	<u><u>380,000</u></u>
Issued and fully paid		
At 1st January, 2003	2,774,085,961	432,757
Adjustment to nominal value	<u>–</u>	<u>(389,481)</u>
Ordinary shares of US\$0.002 each	2,774,085,961	43,276
Consolidation of shares	<u>(2,496,677,365)</u>	<u>–</u>
At 31st December, 2003 and at 30th June, 2004, ordinary shares of US\$0.02 each	<u><u>277,408,596</u></u>	<u><u>43,276</u></u>

## 16. CAPITAL COMMITMENTS

	<b>30.6.2004</b> <b>HK\$'000</b>	31.12.2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements relating to:		
– properties under/held for development	27,645	33,039
– properties under construction	<u>129,393</u>	<u>129,393</u>
	<u><b>157,038</b></u>	<u><b>162,432</b></u>

## 17. CONTINGENT LIABILITIES

### Guarantees

The Group has given guarantees of approximately HK\$14,045,000 (31.12.2003: HK\$14,045,000) to banks in respect of banking facilities utilised by third parties to finance the development project of the Group in Taishan, the PRC.

### Litigations

- (a) In August 1999, the architect of Paul Y. Plaza located in Guangzhou, the PRC, initiated legal proceedings against Eventic Limited (“Eventic”), an indirect wholly owned subsidiary of the Company, in respect of claim for payment of service fees and other expenses of HK\$0.6 million and HK\$6.6 million respectively. Eventic engaged the architect for architectural Services in respect of Paul Y. Plaza.

Eventic has vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided by the architect.

In view of the counterclaim made by Eventic, the architect amended its total claims to HK\$7.7 million. At the date of this report, the proceedings are still ongoing and are the stage of the exchange of documents. After taking into consideration the advice of the Group’s legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect on the Group.

- (b) In July 2001, Huizhou World Express Property Ltd. (“Huizhou World Express”), an indirect non-wholly owned subsidiary of the Company as the developer, initiated legal proceedings against the Huizhou Municipal Government of the Guangdong Province, the PRC, in its capacity as the guarantor of Huizhou Jia Cheng Group Co., Ltd. (“Huizhou Jia Cheng”), the main contractor in the construction of Hongkong Macau Square, under a guarantee letter dated 7th September, 1994 executed by the Huizhou Municipal Government in favour of Huizhou World Express. The amount claimed by Huizhou World Express was RMB243.6 million, being the construction costs of RMB167.5 million paid by Huizhou World Express to Huizhou Jia Cheng together with the damages for the amount of RMB76.1 million.

At the date of this report, Huizhou World Express is waiting for the hearing of the case. At this stage, the outcome cannot be predicted with certainty. As the total construction costs of Hongkong Macau Square has already been written off, the directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Huizhou World Express.

- (c) In June 2003, a sub-contractor of Paul Y. Plaza initiated legal proceedings against Eventic in respect of a claim for payment of sub-contract works of approximately RMB5.2 million.

Eventic has vigorously defended the claim as there was no contractual relationship between Eventic and the sub-contractor. Eventic has also made a counterclaim and/or set off against the sub-contractor for the balance of unused advance payment and overpayment of approximately RMB4.2 million and RMB0.8 million respectively paid to the sub-contractor.

At the date of this report, the proceedings are still ongoing. The directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Eventic.

**18. PLEDGE OF ASSETS**

At 30th June, 2004, the Group has pledged certain part of properties under/held for development with a carrying value of approximately HK\$16,628,000 (31.12.2003: HK\$16,628,000) to banks in respect of banking facilities granted to a third party to finance the development project of the Group in Taishan, the PRC.

**19. POST BALANCE SHEET EVENT**

The following events occurred subsequent to the balance sheet date:

- (a) In August 2004, certain subsidiaries of the Company entered into conditional sales and purchase agreements with State Achieve Properties Limited for the disposal of the Group's entire interest in Huizhou Gladly Property Limited, Huizhou World Express Property Limited and Huizhou Best Glory Limited (collectively referred to as the "Huizhou Companies") for a total consideration of RMB50,000,000. The Huizhou Companies are engaged in the property development projects in Huizhou, the PRC.
- (b) In August 2004, certain wholly-owned subsidiaries of the Company entered into various conditional sales and purchase agreements with independent third parties for the disposal of all the units in Chuang's Garden, which are included as properties held for sale at 30th June, 2004, for a consideration of approximately RMB12,000,000.