

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. Basis of preparation and principal accounting policies

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 31 December 2003.

2. SEGMENT INFORMATION

(a) Business segments

The Group's primary format for reporting segment information is business segments.

	Continuing operations						Discontinued operations						Consolidated					
	Property development		Investment holding		Resort operation		Agricultural operation		Six months ended 30 June		Toll bridge		General trading		Skiing resort		Sub-total	
	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000
Segment revenue:																		
Sales to external customers	6,424	6,677	-	-	299	55	378	125	9,101	64,657	-	454	-	380	47	-	814	65,071
Other revenue	1,344	1	-	-	2	-	-	-	1,346	1	-	-	-	-	-	-	1,346	1
Total	9,768	6,678	-	-	301	55	378	125	10,447	64,658	-	454	-	380	47	-	814	65,072
Segment results	(433)	7230	(19,211)	(19,657)	(752)	(217)	123	(64)	(20,353)	(12,708)	-	(45)	-	8	(3,398)	(4,060)	(21,751)	(1,6803)
Interest income																	286	-
Loss from operating activities																	(23,465)	(1,6803)
Gain on disposal of subsidiaries																	-	5,550
Finance costs																	(2,112)	(1,727)
Share of results of associates																	(545)	107
Loss before taxation																	(25,922)	(12,873)
Taxation																	263	(2,045)
Loss before minority interests																	(25,659)	(14,918)
Minority interests																	134	39
Net loss for the period																	(25,525)	(14,879)

2. SEGMENT INFORMATION (continued)
(b) Geographical segments

	Hong Kong		PRC		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000 (Restated)
Segment revenue:						
Sales to external customers	-	-	9,148	65,671	9,148	65,671
Other revenue	-	-	1,346	1	1,346	1
Total	-	-	10,494	65,672	10,494	65,672
Segment results	(12,151)	(19,657)	(11,314)	2,854	(23,465)	(16,803)

3. Loss from operating activities

Loss from operating activities has been arrived at after charging/(crediting):

	Six months ended	
	30.6.2004 HK\$'000	30.6.2003 HK\$'000
Amortisation of goodwill arising on acquisition of associates	1,766	1,775
Depreciation of fixed assets	4,899	4,166
Provision against a legal claim	9,987	8,491
Provision for inventories	-	2,400
Interest income	(286)	-
Provision for doubtful debts written back	(1,309)	(1,387)

4. Finance costs

	Six months ended	
	30.6.2004 HK\$'000	30.6.2003 HK\$'000
Interest on bank loans and other loans wholly repayable within five years	2,085	6,223
Interest capitalised	—	(4,496)
	2,085	1,727
Interest on finance leases	27	—
	2,112	1,727

5. Taxation

No provision for Hong Kong Profits tax has been made for the period as the Group did not generate any assessable profits arising in Hong Kong during the period (30.6.2003: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for tax is required for the Group's jointly-controlled entity and associates as no assessable profits were earned by the jointly-controlled entity and associates during the period (30.6.2003: Nil).

	Six months ended	
	30.6.2004 HK\$'000	(Restated) 30.6.2003 HK\$'000
Deferred tax		
Current period	(263)	2,045

A reconciliation between tax credit/expense and loss/profit per income statement at applicable tax rate is as follows:

	Six months ended	
	30.6.2004 HK\$'000	(Restated) 30.6.2003 HK\$'000
Loss before taxation	(25,922)	(12,873)
Loss of the Company and subsidiaries	25,125	19,070
(Loss)/profit subject to income tax	(797)	6,197
Tax at tax rate of 33%	(263)	2,045

6. Dividend

The Directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2004 (30.6.2003: Nil).

7. Loss per share

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$25,525,000 (30.6.2003: HK\$14,879,000) and on the weighted average of 3,010,410,504 (30.6.2003: 2,667,813,819) ordinary shares in issue during the period.

8. Movements in fixed assets and properties under development

During the period, the Group spent approximately HK\$5,436,000 and HK\$24,333,000 on acquisitions of fixed assets and properties under development, respectively.

9. Interests in associates

	30.6.2004 HK\$'000	31.12.2003 <i>HK\$'000</i>
Share of net assets	–	345
Goodwill on acquisition	84,000	85,766
Due from associates	2,802	2,793
	86,802	88,904
Provision for impairment	(22,814)	(22,814)
	63,988	66,090

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

10. Trade receivables

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to two to three months. Credit limits were set for customers. The aging analysis of such debtors is as follows:

	30.6.2004 HK\$'000	31.12.2003 <i>HK\$'000</i>
Within 3 months	31	61
More than 3 months and less than 6 months	1	–
More than 6 months and less than 1 year	53	–
	85	61

11. Trade payables

The aging analysis of such creditors is as follows:

	30.6.2004 HK\$'000	31.12.2003 <i>HK\$'000</i>
Within 3 months	1	15,988
More than 6 months but less than 1 year	10,650	–
More than 1 year	7,709	7,744
	18,360	23,732

12. Due to a major shareholder

	30.6.2004 HK\$'000	31.12.2003 <i>HK\$'000</i>
Loans	9,963	2,487
Accrued interest	68	–
Current account	600	–
	10,631	2,487

The loans are unsecured and repayable within one year. The major shareholder ceased to charge interest on the loans (previously charged at 5% per annum) for the period from 30 June 2003 to 20 April 2004. Upon entering into the second supplemental loan agreement with the major shareholder on 21 April 2004, the loans are bearing interest at 5% per annum.

13. Bank loans, other loans and finance lease payable

The Group obtained new other loans of HK\$16,500,000 during the period.

14. Provision for legal claims

The movement of the provision, which was included in other payables and accruals, is as follows:

	30.6.2004 HK\$'000	31.12.2003 <i>HK\$'000</i>
Balance brought forward	1,698	10,361
Provision for the period	9,987	1,698
Disposal of a subsidiary	–	(10,361)
Settlement made during the period	(1,698)	–
Balance carried forward	9,987	1,698

14. Provision for legal claims (continued)

In January 2003, the Company received a writ from a court in PRC alleging that based on a guarantee granted by the Company to a company incorporated in PRC (the "Plaintiff") in respect of a loan made by it to a wholly owned subsidiary (incorporated in PRC) (the "Borrower") of the Company in 1998, the Company was obliged to repay the Plaintiff the loan principal and all unpaid interest amounting to RMB10,585,884 (approximately HK\$9,987,000) as the Borrower was deregistered in November 1999. The Company filed a defence against the claim in January 2003 and a judgment in favour of the Company was granted by the court in PRC in March 2004. However, the Plaintiff appealed to Beijing People's Supreme Court (北京市高級人民法院) afterwards and our defence against the claim was rejected by the court in June 2004. Therefore, a provision of RMB10,585,884 (approximately HK\$9,987,000) was made in the financial statements.

During the period ended 30 June 2004, the Group settled the claim filed by a contractor in 2003 for refunding a contracting deposit of RMB2,000,000 by payment of RMB1,800,000 (approximately HK\$1,698,000).

15. Deferred tax liabilities

At the balance sheet date, the components of deferred tax liabilities provided at a tax rate of 33% (2003: 33%) were as follows:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Deferred tax liabilities:		
Profit from property development recognized during the period, but not taken up in the statutory accounts of the subsidiary in Mainland China	(15,805)	(16,068)
Deferred tax assets:		
Cost and expenses not deductible until taken up in the statutory accounts of the subsidiary in Mainland China	536	536
Net deferred tax liabilities	(15,269)	(15,532)

The Group has tax losses arising in Hong Kong and Mainland China of approximately HK\$184,454,000 (2003: HK\$175,136,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as these companies have been loss-making for some years.

16 Share capital

	Ordinary shares of HK\$0.1 each	
	Number of shares	HK\$'000
<i>Authorised:</i>		
At 1 January 2004 and 30 June 2004	4,000,000,000	400,000
<i>Issued and fully paid:</i>		
At 1 January 2004 and 30 June 2004	3,010,410,504	301,041

17. Related party transactions

During the period, the Group had the following material transactions with related parties:

	30.6.2004 HK\$'000	30.6.2003 HK\$'000
(i) Management fee paid to the major shareholder	600	420
(ii) Loan interest expenses paid to the major shareholder	68	219

- (i) On 26 February 2004, the Company entered into an agreement with the major shareholder whereby the major shareholder shall assist the Company by seconding staff members to manage and advise on the Company's development. The amount of management fee is based on the number and seniority of the staff being seconded to the Company and is subject to approval by the board of directors at the end of each month. The term of the agreement is one year from the agreement date and the aggregate management fee payable under the agreement is capped at HK\$5,000,000 per annum or HK\$416,000 per month.

17. Related party transactions *(continued)*

- (ii) On 1 November 2002, the Company issued a promissory note to the major shareholder for HK\$980,000. The note is unsecured, bearing interest at prime rate in Hong Kong and without fixed repayment terms. This note had been fully repaid by the Company during 2003.

On 18 November 2002, the Company entered into a loan agreement with the major shareholder. Under the terms of the loan agreement, the major shareholder shall grant the Company loan facilities up to a maximum of HK\$9,000,000 for a period of 12 months. The loans are unsecured and bearing interest at 5% per annum.

On 6 December 2002, the Company entered into a supplemental loan agreement with the major shareholder. Under the terms of the supplemental loan agreement, the major shareholder shall grant the Company loan facilities up to a maximum of HK\$25,020,000 for a period of 12 months. The loans are unsecured and bearing interest at 5% per annum.

On 21 April 2004, the Company entered into a second supplemental loan agreement with the major shareholder to replace the above mentioned loan agreement and supplemental loan agreement. Under the terms of the second supplemental loan agreement, the major shareholder shall grant the Company loan facilities up to a maximum of HK\$18,000,000 for a period of 12 months. The loans are unsecured and bearing interest at 5% per annum.

18. Contingent liabilities

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Guarantees given to banks in respect of mortgage loans made to the purchasers of the Group's properties under development	164,028	154,118

19. Capital commitments

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Properties under development:		
Authorised and contracted for	63,028	45,267
Authorised, but not contracted for	16,321	25,979
	79,349	71,246
Acquisition of an investee company		
Authorised and contracted for	2,000	–
Total	81,349	71,246

20. Litigation

- (i) On 7 May 2004, the Company was served with a writ by a company claiming an amount of HK\$2,300,000, allegedly consultation service fee owed by the Company. The Company filed a defence on 19 June 2004. Having considered the legal advice, the directors believe that the Company has valid defence against the claim and therefore no provision has been made.
- (ii) A wholly owned subsidiary (incorporated in PRC) of the Company ("Subsidiary") entered into an agreement for pre-sale of commodity properties developed by the Subsidiary ("Pre-sale Agreement") with an independent third party ("Buyer") in PRC on 12 July 2002 for a consideration of RMB20,000,000 (approximately HK\$18,868,000). The Subsidiary later entered into a buy-back agreement ("Buy-back Agreement") with the Buyer on 22 July 2002 whereby the Subsidiary has an option to buy-back the above mentioned properties at a premium of 5.841% within 12 months from the date of the Pre-sale Agreement. Before the expiry of the option, the Subsidiary exercised the option and paid a total sum of RMB21,168,200 (approximately HK\$19,970,000) to the Buyer.

However, the Buyer breached the Buy-back Agreement and refused to revert the properties. Therefore, the Subsidiary lodged a claim against the Buyer in PRC and a court judgment was made on 25 August 2004 whereby the Buyer should revert the above properties and the Subsidiary should make a compensation of RMB10,000,000 (approximately HK\$9,434,000) to the Buyer for the loss in price increment of the properties during the option period. Having considered legal advice, the directors believe that the Subsidiary has valid grounds to appeal against the decision, therefore an appeal petition had been made to the court on 14 September 2004. The directors believe that no provision for the claim is necessary.

20. Litigation *(continued)*

- (iii) The claim as made by the buyer ("Buyer") of 4 subsidiaries (the Group completed the disposal of 4 subsidiaries on 6 March 2003) against the Company for a maximum of RMB5 million (details of the claim had been stated in note 43 to the financial statements of the Group for the year ended 31 December 2003) in December 2003 was rejected by the court on 22 May 2004. However, the Company was served with a writ by a former director of the Company ("Plaintiff") on 1 September 2004, alleging that based on an undertaking (承諾書) made by the Company in favour of the Plaintiff on 12 December 2002, the Company would be liable to indemnify the Plaintiff for any loss incurred by him upon the granting of his personal guarantee to the Buyer. As a result of his personal guarantee, a judgement was made by a PRC court against the Plaintiff to the effect that he has to compensate the Buyer a total sum of RMB5 million in August 2004. He in turn claimed the same amount against the Company. As the purported undertaking did not contain any term for such indemnity, nor the Company had entered into any legally binding contract agreeing to such indemnity, the directors believe that no provision for the claim is necessary.
- (iv) The claim as made by an ex-director for loss of office under a service contract for a total sum of approximately HK\$1,999,000 as mentioned in note 43 to the financial statements of the Group for the year ended 31 December 2003 was struck out by the court on 11 June 2004.

21. Post balance sheet events

Having been detained by the Procuratorate of Zhuhai in the PRC, Mr. Liang Jianhua ("Mr. Liang"), former chairman and chief executive officer ("CEO") of the Company, resigned as chairman, CEO and executive director of the Company on 9 September 2004. In Mr. Liang's stead, Mr. Lu Junsu was appointed as a new executive director and chairman of the Company and Mr. Chen Jung Hsin, an existing executive director, was appointed as CEO of the Company in addition to his directorship on the same day. The Board believes that the change in key personnel will be beneficial for the future development of the Group.

20% of the shareholding of Fairyoung (Heilongjiang) Industry Company Limited, a wholly owned subsidiary of the Company holding Heilongjiang Yabuli Ski Resort, was sold on 13 August 2003 with an option for the purchaser to buy the remaining 80% shares on or before 12 August 2004, or else it has to re-sell the 20% shares back to the Group. The option has expired but the purchaser has not yet exercised the option. The Group is still in negotiation with the purchaser on the next step to be taken in this matter.

INTERIM DIVIDEND

The Directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2004 (30.6.2003: Nil).