

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2003

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 ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of 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 and investments in securities.

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, 2002, except as described below.

Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exemptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this SSAP has had no material effects on the results for the current or prior accounting periods. The balances on the Group's property, plant and equipment and deferred taxation liability as at 30th June, 2003 have been increased by HK\$232,450,000 (31.12.2002: increased by HK\$243,105,000).

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.

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

Six months ended 30th June, 2003

	Continuing operations			Discontinuing operation		
	Property sale and development	Property rental	Other operations	Hotel operation	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note)		
REVENUE						
External sales	-	5,491	571	51,749	-	57,811
Inter-segment sales	-	-	-	-	-	-
Total revenue	<u>-</u>	<u>5,491</u>	<u>571</u>	<u>51,749</u>	<u>-</u>	<u>57,811</u>
RESULT						
Segment result	<u>(4,727)</u>	<u>(487)</u>	<u>(625)</u>	<u>(140,529)</u>	<u>-</u>	<u>(146,368)</u>
Unallocated corporate expenses						<u>(12,090)</u>
Loss from operations						<u>(158,458)</u>
Finance costs						<u>(19,877)</u>
Loss before taxation						<u>(178,335)</u>

3. Segmental information *(Continued)***Business segments** *(Continued)***Six months ended 30th June, 2002**

	Continuing operations			Discontinuing operations		Elimination	Consolidated
	Property sale and development	Property rental	Other operations	Toll highway operation	Hotel operation		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000
REVENUE							
External sales	8,860	2,910	2,522	25,194	21,452	–	60,938
Inter-segment sales	–	–	552	–	–	(552)	–
Total revenue	<u>8,860</u>	<u>2,910</u>	<u>3,074</u>	<u>25,194</u>	<u>21,452</u>	<u>(552)</u>	<u>60,938</u>
RESULT							
Segment result	<u>(2,695)</u>	<u>(7,964)</u>	<u>2,217</u>	<u>(70,289)</u>	<u>(1,027)</u>	<u>–</u>	<u>(79,758)</u>
Unallocated corporate expenses							<u>(12,565)</u>
Loss from operations							(92,323)
Finance costs							(18,909)
Share of results of an associate							<u>(151)</u>
Loss before taxation							<u>(111,383)</u>

Inter-segment transactions are conducted at terms determined between the parties.

Note: On 8th August, 2003, the Group proposed the Rosedale Group Reorganisation (as defined in note 20 to the condensed financial statements). Should the reorganisation be completed, the Group will have no interest in the business of hotel and leisure-related activities and the hotel operation of the Group will be regarded as discontinuing operations.

3. Segmental information *(Continued)***Geographical segments**

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

	Total revenue Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
The People's Republic of China ("PRC"), other than Hong Kong	33,051	49,634
Hong Kong	24,760	9,087
Others	-	2,217
	57,811	60,938

4. Impairment loss and revaluation decrease

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Impairment loss and revaluation decrease recognised in respect of:		
- toll highway	-	72,305
- investment properties	1,317	9,069
- properties under/held for development	4,400	-
- properties under construction	527	-
- hotel properties	110,259	-
- properties held for sale	-	1,185
- payment for investments	18,000	-
	134,503	82,559

5. Loss from operations

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation and amortisation		
Owned assets	11,115	18,439
Assets held under finance leases	343	-
Unrealised loss (gain) on investments in securities	137	(1,114)
Release of negative goodwill, included in other operating income	(442)	-

6. Taxation

Taxation for the period represents deferred taxation credit.

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.

7. Loss per share

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$163,516,000 (HK\$73,611,000 for the six months ended 30th June, 2002) and on 2,774,085,961 ordinary shares (1,362,419,295 ordinary shares for the six months ended 30th June, 2002) in issue during the period.

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

No diluted loss per share has been calculated for the period ended 30th June, 2002 as there were no dilutive ordinary shares in issue.

8. Investment properties

Revaluation decrease of HK\$1,317,000 was made based on the valuation carried out by RHL Appraisal Limited ("RHL"), an independent firm of professional property valuers, on an open market value basis at 30th June, 2003.

9. Movements in property, plant and equipment

During the period, the Group incurred expenditure of approximately HK\$8 million on property, plant and equipment.

In view of the market conditions, the Group has recognised an impairment loss of HK\$527,000 on properties under construction, with reference to the valuation made by RHL, on an open market value basis at 30th June, 2003, in the condensed consolidated income statement.

With respect to the hotel properties situated in Hong Kong, Guangzhou, the PRC, and Beijing, the PRC, impairment losses of HK\$47,431,000, HK\$24,033,000 and HK\$38,795,000, respectively, were recognised in the condensed consolidated income statement, with reference to the valuation made by RHL as at 30th June, 2003 under a discounted cash flow method, using a discount rate of 7%, 9% and 9%, respectively.

10. Additions to properties under/held for development

During the period, the Group incurred expenditure of approximately HK\$10 million on the property development projects in the PRC.

In view of the market conditions, the Group has recognised an impairment loss of HK\$4,400,000 on properties under/held for development, with reference to the valuation made by RHL, on an open market value basis in the condensed consolidated income statement.

11. Payment for investments

In July 2002, the Company entered into a conditional agreement (the "Agreement") to acquire the entire issued share capital of and shareholder's loan to Shropshire Property Limited ("Shropshire") from Ananda Wing On Travel (Holdings) Limited ("Ananda") for a fair value of HK\$108,000,000 and it was satisfied by the issue of 366,666,666 shares in the Company at HK\$0.30 per share. The transaction was completed in December, 2002. Shropshire has contracted with Luoyang Power Supply Bureau to acquire 60% interest in Luoyang Golden Gulf Hotel Co., Ltd. ("Luoyang Golden Gulf"), a company established and operating a hotel in Luoyang, the PRC, for a consideration HK\$90,600,000.

In respect of the acquisition of Luoyang Golden Gulf, HK\$47,600,000 was paid and the remaining balance of HK\$43,000,000, included in trade and other payables, will be settled at a later date to be agreed by Shropshire and Luoyang Power Supply Bureau. Ananda has undertaken under the Agreement to settle the remaining balance and has further undertaken to indemnify the Company against any loss that may suffer as a result of the failure to complete the transfer of the land use rights of the hotel, including the payment of any land premium for such transfer, which was estimated by a PRC property appraiser to be approximately RMB39,700,000.

The Group has assessed the carrying value of Shropshire with reference to the valuation made by Norton Appraisal Limited, an independent firm of professional valuers, on the hotel operated and owned by Luoyang Golden Gulf, under a discounted cash flow method, using a discount rate of 12%. An impairment loss of HK\$18,000,000 has been identified and recognised in the condensed consolidated income statement.

A payment of HK\$75,000,000 was made to an independent third party for the acquisition of the entire share capital of and shareholder's loan to a company holding approximately 87% interest in a hotel located in Shenyang, the PRC. As the Group proposed the Rosedale Group Reorganisation, the directors are of the opinion that the Group will not proceed with this investment proposal if the reorganisation is approved by the independent shareholders and the amount will be repaid in full accordingly. The directors have assessed the recoverability of the investment deposits.

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 customers' merit.

Included in trade and other receivables are trade receivables of HK\$6,288,000 (31.12.2002: HK\$11,712,000) and their aged analysis is as follows:

	30.6.2003 HK\$'000	31.12.2002 HK\$'000
0 to 90 days	4,331	10,198
91 to 180 days	1,278	1,514
Over 180 days	679	—
	6,288	11,712

13. Trade and other payables

Included in trade and other payables are trade payables of HK\$5,597,000 (31.12.2002: HK\$6,520,000), all of which are aged within 90 days.

14. Bank and other borrowings

During the period, the Group obtained new borrowings amounting to HK\$21 million. The borrowings bear interest at market rates and are repayable in 2004. The proceeds were used to finance the general operations of the Group.

The Group also made repayment of HK\$14 million during the period.

15. Share capital

	Number of shares	Value US\$'000
Ordinary shares of US\$0.02 each		
Authorised:		
At 1st January, 2002	1,900,000,000	38,000
Additions	1,100,000,000	22,000
	<hr/>	<hr/>
At 30th June, 2002	3,000,000,000	60,000
Additions	16,000,000,000	320,000
	<hr/>	<hr/>
At 31st December, 2002 and 30th June, 2003	<u>19,000,000,000</u>	<u>380,000</u>
		Value HK\$'000
Issued and fully paid:		
At 1st January, 2002 and 30th June, 2002	1,362,419,295	212,537
Issue of new shares	1,411,666,666	220,220
	<hr/>	<hr/>
At 31st December, 2002 and 30th June, 2003	<u>2,774,085,961</u>	<u>432,757</u>

16. Capital commitments

Capital expenditure contracted for but not provided
in the financial statements relating to:

- properties under/held for development
- properties under construction

30.6.2003 HK\$'000	31.12.2002 HK\$'000
35,800	43,108
129,393	129,393
165,193	172,501

17. Operating lease commitments***The Group as lessee***

The Group made minimum lease payments of approximately HK\$2,432,000 (HK\$1,187,000 for the six months ended 30th June, 2002) under operating leases during the period in respect of office properties.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

Within one year

In the second to fifth years inclusive

30.6.2003 HK\$'000	31.12.2002 HK\$'000
2,982	318
1,969	–
4,951	318

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years.

The Group as lessor

Property rental income earned during the period was approximately HK\$5,491,000 (HK\$5,973,000 for the six months ended 30th June, 2002). All of the properties held have committed tenants for the next three to ten years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

Within one year

In the second to fifth years inclusive

Over five years

30.6.2003 HK\$'000	31.12.2002 HK\$'000
20,663	20,781
67,418	66,897
100,507	101,916
188,588	189,594

18. Contingent liabilities

Guarantees

The Group has given guarantees of HK\$14,045,000 (31.12.2002: 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 of the Company consider the outcome of the proceedings will not have material adverse financial impact 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, the proceedings are still ongoing. 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 of the Company 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 2002, 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 of the Company 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.

19. Pledge of assets

At 30th June, 2003, the Group has pledged the following assets for:

(a) Bank borrowings

- Certain part of a hotel property (including its integral part) with a carrying value of HK\$662,000,000 (31.12.2002: HK\$714,000,000).
- Certain part of properties under/held for development with a carrying value of HK\$16,628,000 (31.12.2002: HK\$16,628,000).
- A fixed charge over all the revenue and a floating charge over all the assets of Rosedale Park Limited, a wholly-owned subsidiary, engaging in hotel operation in Hong Kong.
- A fixed charge over all the shares in Hey Wealth Limited, a wholly owned subsidiary of the Company which holds the title of a hotel property in Hong Kong.

(b) Promissory note

- A fixed charge over the entire issued share capital of and shareholders' loan to Makerston Limited and its subsidiaries holding the 95% interest in Rosedale Hotel & Suites ■ Beijing.

20. Post balance sheet events

On 8th August, 2003, the Company announced a proposed group reorganisation ("Rosedale Group Reorganisation") which, if approved and implemented, will result in (i) the Group concentrating on business other than hotel and leisure-related businesses the Group has engaged in the past; (ii) a wholly owned subsidiary, Apex Quality Group Limited ("Apex") holding all assets and liabilities of the Group in relation to the hotel and leisure-related businesses; and (iii) the distribution in specie of the shares in Apex to the then shareholders of the Company on a record date to be fixed, on the basis of one Apex share for every share in the Company after consolidation under the capital reorganisation as described below ("Capital Reorganisation").

The Company also proposed to carry out the Capital Reorganisation which involve, inter alia, the followings:

- (i) cancellation of the paid-up capital of US\$0.018 on each issued share of the Company and reduction in the nominal value of each issued share from US\$0.02 to US\$0.002 ("Capital Reduction") and the cancellation of the entire share premium account of the Company;
- (ii) subdivision of each authorised but unissued share of the Company into ten reduced shares of US\$0.002 each ("Subdivision");
- (iii) every ten reduced shares of the Company of US\$0.002 each arising from the Capital Reduction and Subdivision will then be consolidated into one ordinary share of US\$0.02; and
- (iv) the credits of approximately HK\$389,482,000 and HK\$271,023,000 resulting from the Capital Reduction and the cancellation of share premium account, respectively to the contributed surplus account of the Company.

Details of the Rosedale Group Reorganisation and Capital Reorganisation are set out in the announcement of the Company dated 8th August, 2003.