## *NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT*

### 1. Significant accounting policies

*(a) Basis of preparation*

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 22.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 April 2003.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the preparation of the interim financial report except that the Group has adopted SSAP 12 (Revised) "Income taxes". The adoption of this revised SSAP has no material effect on the Group's financial results for the six months ended 30 June 2003.

*(b) Income tax*

Income tax for the period comprises current and deferred tax. Except for items directly related to equity, income tax is recognised in the consolidated profit and loss account.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

**1. Significant accounting policies** *(continued)*

*(b) Income tax (continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

(i) in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or

(ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

*(c) Change of accounting policy*

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 periods, 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 exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy is required to be applied retrospectively. However, as the adoption of the new accounting policy has no material effect on the Group's financial results for the period ended and prior to 30 June 2003, there is no adjustment relating to prior periods.

**2. Segmental information**

A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment (geographical segment), or in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments.

Information relating to geographical segments based on the location of assets is chosen as the primary reporting format because this is considered by management to be more relevant to the Group in making operating and financial decisions. The Group's business operations are mainly divided into Macau, the People's Republic of China ("PRC"), Vietnam, Canada and other markets classified by the location of assets.

Segment revenue and expenses include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue and expenses are determined before intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group transactions are between group enterprises within a single segment.

The analysis of the geographical locations of the operations of the Company and its subsidiaries during the financial period is as follows:

| | Six months ended 30 June 2003 (HK$'000) | | | | | |
|---|---|---|---|---|---|---|
| | **Macau** | **PRC** | **Vietnam** | **Canada** | **Others** | **Total** |
| **Turnover** | 21,313 | 12,575 | 15,077 | 811 | 513 | 50,289 |
| **Other revenue** | | | | | | |
| **– allocated** | 170 | – | – | – | – | 170 |
| **– unallocated** | – | – | – | – | 1,832 | 1,832 |
| **Total revenue** | 21,483 | 12,575 | 15,077 | 811 | 2,345 | 52,291 |
| **Segment result** | 6,802 | (13,103) | (12,502) | (134) | 3,185 | (15,752) |
| **Finance costs** | (672) | (2,604) | (1,512) | – | (960) | (5,748) |
| **Share of profits less losses of associates** | (16) | 3,706 | 2,464 | (318) | – | 5,836 |
| **Loss from ordinary activities before taxation** | | | | | | (15,664) |
| **Taxation charge** | | | | | | (1,832) |
| **Loss from ordinary activities after taxation** | | | | | | (17,496) |
| **Minority interests** | | | | | | 12,768 |
| **Loss attributable to shareholders** | | | | | | (4,728) |
| **Depreciation and amortisation** | 2,144 | 13,407 | 13,148 | – | 88 | 28,787 |

**2. Segmental information** *(continued)*

| | Six months ended 30 June 2002 (HK$'000) | | | | | |
|---|---|---|---|---|---|---|
| | Macau | PRC | Vietnam | Canada | Others | Total |
| Turnover | 88,457 | 17,066 | 4,723 | 797 | 6,230 | 117,273 |
| Other revenue | | | | | | |
| – allocated | 551 | – | – | – | – | 551 |
| – unallocated | – | – | – | – | 800 | 800 |
| Total revenue | 89,008 | 17,066 | 4,723 | 797 | 7,030 | 118,624 |
| Segment result | 23,145 | (10,876) | (2,502) | 20 | 2,585 | 12,372 |
| Finance costs | (1,371) | (3,173) | – | – | (839) | (5,383) |
| Share of profits less losses of associates | (6) | 3,670 | 4,729 | 2,566 | – | 10,959 |
| Profit from ordinary activities before taxation | | | | | | 17,948 |
| Taxation credit | | | | | | 3,259 |
| Profit from ordinary activities after taxation | | | | | | 21,207 |
| Minority interests | | | | | | 224 |
| Profit attributable to shareholders | | | | | | 21,431 |
| Depreciation and amortisation | 2,114 | 13,051 | 4,303 | – | 1 | 19,469 |

An analysis of the Group's turnover for the six months ended 30 June 2003 by business segments is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Proceeds from sale of properties | **13,224** | 85,395 |
| Rental income | **3,658** | 3,967 |
| Hotel and club operations | **30,650** | 25,295 |
| Management fee received | **2,757** | 2,616 |
| | **50,289** | 117,273 |

## 3. Other net income

Other net income for the six months ended 30 June 2003 represents net exchange gains.

## 4. (Loss)/profit from ordinary activities before taxation

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| **(a) Finance costs:** | | |
| Interest on bank overdraft and other advances repayable within five years (net of HK$307,508 interest capitalised into properties under development (2002: HK$1,905,000)) | **3,810** | 3,095 |
| Interest paid on amounts due to an affiliated company | **1,573** | 1,934 |
| Other borrowing costs | **365** | 354 |
| | **5,748** | 5,383 |
| **(b) Other items:** | | |
| Staff cost (including retirement costs of HK$553,911 (2002: HK$360,000)) | **8,417** | 6,913 |
| Cost of properties sold | **7,469** | 55,621 |
| Cost of inventories | **5,553** | 3,135 |
| Depreciation and amortization | **28,787** | 19,469 |
| Dividend income from listed investments | **(12)** | (7) |

## 5. Taxation

Taxation is calculated at the rate of 17.5% (2002: 16%) on Hong Kong assessable profits and at the applicable rates on overseas assessable profits. The taxation (charge)/credit is made up as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Provision for Hong Kong profits tax for the period | **–** | – |
| Overseas taxation | | |
| – Current period | **(919)** | (4,794) |
| – Prior periods | **310** | 9,580 |
| | **(609)** | 4,786 |
| Share of associates' taxation | **(1,223)** | (1,527) |
| Taxation (charge)/credit | **(1,832)** | 3,259 |

**6. Dividends**

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

**7. Basic (loss)/earnings per share**

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK$4,728,000 (2002: profit of HK$21,431,000) and on the 340,200,000 ordinary shares in issue during both periods.

**8. Fixed assets**

*Investment properties*

At 30 June 2003, the Directors have considered the carrying amount of the Group's investment properties and have estimated that the carrying amounts do not differ significantly from those at 31 December 2002. Consequently, no revaluation surplus or deficit has been recognised in the current period.

**9. Trade and other receivables**

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

| | **At 30 June 2003** | At 31 December 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **2,975** | 3,034 |
| 1 to 3 months overdue | **4,170** | 20,186 |
| 4 to 12 months overdue | **236** | – |
| More than 12 months overdue | **166** | 7 |
| Trade receivables | **7,547** | 23,227 |

Debts are due within 30 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted.

**10. Trade and other payables**

Included in trade and other payables are trade creditors with the following ageing analysis:

| | **At 30 June 2003** | At 31 December 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Due within 1 month or on demand | **2,579** | 4,304 |
| Due after 1 month but within 3 months | **1,402** | – |
| Due after 3 months but within 6 months | **204** | – |
| Trade creditors | **4,185** | 4,304 |

## 11. Share capital

| | No. of shares | Amount HK$'000 |
|---|---|---|
| *Authorised:* | | |
| Ordinary shares of HK$1 each | 500,000,000 | 500,000 |
| *Issued and fully paid:* | | |
| At 1 January 2003 and 30 June 2003 | 340,200,000 | 340,200 |

## 12. Reserves

| | Share premium HK$'000 | Legal reserve HK$'000 | Exchange reserve HK$'000 | Investment property revaluation reserve HK$'000 | Investment revaluation reserve HK$'000 | Revenue reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2002 | 158,105 | 12,758 | 11,428 | 8,080 | 44 | 750,411 | 940,826 |
| Movement during the year | – | – | (2,159) | – | 144 | – | (2,015) |
| Profit for the year | – | – | – | – | – | 28,315 | 28,315 |
| Dividends | – | – | – | – | – | (3,402) | (3,402) |
| At 31 December 2002 and at 1 January 2003 | 158,105 | 12,758 | 9,269 | 8,080 | 188 | 775,324 | 963,724 |
| Movement during the period | – | – | 8,567 | – | (36) | – | 8,531 |
| Loss for the period | – | – | – | – | – | (4,728) | (4,728) |
| At 30 June 2003 | 158,105 | 12,758 | 17,836 | 8,080 | 152 | 770,596 | 967,527 |

## 13. Commitments

At 30 June 2003, the Group had commitments in respect of development expenditure not provided for in the financial statements as follows:

| | **At 30 June 2003** ***HK$'000*** | At 31 December 2002 *HK$'000* |
|---|---|---|
| Contracted for | **83,737** | 91,906 |
| Authorised but not contracted for | **–** | 93,396 |
| | **83,737** | 185,302 |

**14. Contingent liabilities**

(a) At 30 June 2003, there were outstanding counter indemnities relating to guarantees issued by the bankers of a subsidiary in favour of the Macau SAR Government in respect of properties under development amounting to HK$6,311,000 (31 December 2002: HK$6,311,000).

(b) Pursuant to the revised agreement with the Macau SAR Government on 29 August 2003, Golden Crown Development Limited ("Golden Crown") is required to complete the remaining phases of the development project in Ocean Gardens by 4 September 2005. Failure to comply with the development schedule may render the subsidiary liable to a fine of HK$4,854 for each day of delay up to a limit of 90 days and thereafter the fine may be increased up to HK$9,709 per day. When the delay reaches 180 days, the Macau SAR Government may terminate the agreement totally or partially and the specified areas granted together with the work already done shall revert to the Macau SAR Government and the subsidiary shall have no right of compensation. The Directors are confident that the remaining phases of the development project will be completed by 4 September 2005.

(c) At 30 June 2003, guarantees given by the Company to banks to secure banking facilities made available to the subsidiaries and associates amounted to HK$183,017,000 (US$23,515,000) (31 December 2002: HK$183,017,000 (US$23,515,000)) and HK$59,976,000 (CAD$10,330,000) (31 December 2002: HK$51,495,000 (CAD$10,330,000)) respectively.

(d) At 30 June 2003, guarantees given by a subsidiary to a bank to secure banking facilities made available to its associate amounted to HK$38,523,000 (CAD$6,635,000) (31 December 2002: HK$33,075,000 (CAD$6,635,000)).

(e) To finance the capital expenditure of its subsidiary, an intermediate subsidiary provided a guarantee to a bank to secure a banking facility made available to the Company. At 30 June 2003, the guarantee granted by the subsidiary amounted to HK$62,264,000 (US$8,000,000) (31 December 2002: HK$Nil).

**15. Material related party transactions**

During the six months ended 30 June 2003, certain subsidiaries of the Company had the following transactions which were on normal commercial terms with Goodland Limited ("Goodland"), a company holding 45% of the issued shares of the Company at 30 June 2003.

(a) Goodland maintained current accounts with certain subsidiaries of the Group. The aggregate amounts due to Goodland amounted to HK$88,147,000 (31 December 2002: HK$114,204,000).

The amounts due to Goodland were non-interest bearing except for amounts payable by certain subsidiaries of the Group of HK$65,602,000 (31 December 2002: HK$92,014,000) which are interest-bearing at market rates of interest. The interest payable by the Group for the six months ended 30 June 2003 amounted to HK$625,000 (2002: HK$1,075,000).

(b) Loans from minority shareholders include an amount due to Goodland of HK$136,990,000 (31 December 2002: HK$128,889,000) and are non-interest bearing except for an amount of HK$41,419,000 (31 December 2002: HK$38,336,000) which is interest-bearing. The interest charged for the six months ended 30 June 2003 payable by the Group was HK$948,000 (2002: HK$859,000).

**15. Material related party transactions** *(continued)*

(c) Golden Crown rented certain of its properties to Goodland and received rental income (net of outgoings) amounting to HK$506,000 for the six months ended 30 June 2003 (2002: HK$506,000).

(d) Certain subsidiaries of the Group paid management fees to Goodland which totalled HK$4,722,000 for the six months ended 30 June 2003 (2002: HK$1,602,000).

(e) Golden Crown rented certain properties from Goodland and paid rental of HK$87,000 during the six months ended 30 June 2003 (2002: HK$90,000).

Kansas Holdings Limited provides management services to the Company. No management fee was charged during the six months ended 30 June 2003 (2002: HK$Nil).

Keck Seng Realty Investment Pte Limited acts as manager and sales agent for the Company's property in Singapore. No management or agency fee was charged during the six months ended 30 June 2003 (2002: HK$Nil).

Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong were interested in the above arrangements as substantial shareholders and directors of Kansas Holdings Limited, Keck Seng Realty Investment Pte Limited and Goodland.