

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT**1. Significant accounting policies***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 Institute of Certified Public Accountants (“HKICPA”) (previously named Hong Kong Society of Accountants). KPMG’s independent review report to the Board of Directors is included on page 20.

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 25 “Interim financial reporting” issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 April 2004.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the preparation of the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2003 statutory financial statements.

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.

2. Segmental information (continued)

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 2004 (HK\$'000)					
	Macau	PRC	Vietnam	Canada	Others	Total
Turnover	92,767	17,833	72,097	406	312	183,415
Other revenue						
– allocated	2,209	186	118	–	–	2,513
– unallocated	–	–	–	–	542	542
Total revenue	<u>94,976</u>	<u>18,019</u>	<u>72,215</u>	<u>406</u>	<u>854</u>	<u>186,470</u>
Segment result	47,411	(3,590)	(7,063)	(67)	(605)	36,086
Finance costs	(83)	(813)	–	–	(2,694)	(3,590)
Share of profits less						
losses of associates	(1)	2,753	3,750	2,223	–	8,725
Profit from ordinary activities						
before taxation						41,221
Income tax credit						4,126
Profit from ordinary activities						
after taxation						45,347
Minority interests						(13,060)
Profit attributable to shareholders						<u>32,287</u>
Depreciation and amortisation	2,041	6,094	38,521	–	88	46,744

2. Segmental information (continued)

	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	<u>21,483</u>	<u>12,575</u>	<u>15,077</u>	<u>811</u>	<u>2,345</u>	<u>52,291</u>
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)	–	<u>5,836</u>
Loss from ordinary activities before taxation						(15,664)
Income tax charge						<u>(1,832)</u>
Loss from ordinary activities after taxation						(17,496)
Minority interests						<u>12,768</u>
Loss attributable to shareholders						<u>(4,728)</u>
Depreciation and amortisation	2,144	13,407	13,148	–	88	28,787

An analysis of the Group's turnover for the six months ended 30 June 2004 by business segments is as follows:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Proceeds from sale of properties	84,979	13,224
Hotel and club operations	92,089	30,650
Rental income	3,914	3,658
Management fee received	<u>2,433</u>	<u>2,757</u>
	<u>183,415</u>	<u>50,289</u>

3. Other net (loss)/income

Other net (loss)/income represents net exchange (losses)/gains.

4. Profit/(loss) from ordinary activities before taxation

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest on bank overdraft and other advances repayable		
within five years (net of interest capitalised into properties		
under development HK\$Nil (2003: HK\$308,000))	2,630	2,500
Interest on bank advances repayable after five years	905	1,310
Interest paid on amounts due to an affiliated company	55	1,573
Other borrowing costs	–	365
	<u>3,590</u>	<u>5,748</u>
(b) Other items:		
Staff costs (including retirement costs of HK\$361,000		
(2003: HK\$554,000))	11,498	8,417
Cost of properties sold	27,171	7,469
Cost of inventories	10,198	5,553
Depreciation	46,744	28,787
Dividend income from listed investments	(16)	(12)
Provisions for construction costs released to cost of sales (Note)	<u>(16,866)</u>	<u>–</u>

Note: The financial statements include provisions for construction costs for work performed, which are estimated based on information available to the Directors, including independent surveyors' reports, where applicable. Upon completion of certain units of a property development during the period ended 30 June 2004, the Directors have reassessed the adequacy of provisions for construction costs for this property development based on information provided by an independent surveyor on 8 July 2004, and provisions for construction costs amounting to HK\$16,866,000 have been released to cost of sales in the consolidated income statement for the six months ended 30 June 2004.

5. Income tax

Taxation is calculated at the rate of 17.5% (2003: 17.5%) on Hong Kong assessable profits and at the applicable rates on overseas assessable profits. The taxation credit/(charge) is made up as follows:

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Provision for Hong Kong Profits Tax for the period	–	–
Overseas taxation		
– Current period	(8,205)	(919)
– Prior periods	13,282	310
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	5,077	(609)
Share of associates' taxation	(951)	(1,223)
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Income tax credit/(charge)	4,126	(1,832)
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In prior years, the Directors provided for overseas taxation in respect of certain subsidiaries of the Group based on the information available to the Group at that time. During the six months ended 30 June 2004, the Directors have reassessed the adequacy of those provisions and as a result of this evaluation, provisions for overseas taxation totalling HK\$13,282,000 have been released to the income statement for the six months ended 30 June 2004.

At 30 June 2004, the Group did not have any material deferred tax liabilities (31 December 2003: HK\$Nil).

The major component of unprovided deferred taxation of the Group is the future benefit of tax losses, which have been agreed with the relevant tax authorities, of HK\$4,241,000 (31 December 2003: HK\$4,241,000). The future benefit of tax losses which are subject to agreement by the relevant tax authorities at 30 June 2004 amount to HK\$107,863,000 (31 December 2003: HK\$105,954,000). The future benefit of tax losses is not recognised as it is not probable that there will be sufficient appropriate taxable profits before expiry of tax losses in the respective tax jurisdictions.

The tax losses can be carried forward to offset against the taxable profits of subsequent years for up to three to five years from the year in which they were incurred or there is no restriction on their expiry, depending on the tax jurisdiction concerned.

6. Dividend

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

7. Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$32,287,000 (2003: loss of HK\$4,728,000) and 340,200,000 ordinary shares in issue during both periods.

8. Fixed assets

At 30 June 2004, 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 as at 31 December 2003. Consequently, no revaluation surplus or deficit has been recognised in the current period.

At 30 June 2004, certain investment properties, other properties and a hotel property together with its integral fixtures and fittings with a net book value of HK\$368,439,000 (31 December 2003: HK\$375,388,000) were mortgaged to various banks to secure banking facilities granted to the Group.

9. Properties held for sale

Certain of these properties with a carrying value of HK\$132,667,000 (31 December 2003: HK\$135,048,000) have been mortgaged to secure a subsidiary's banking facilities at 30 June 2004.

10. 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 2004 HK\$'000	At 31 December 2003 HK\$'000
Current	13,515	4,707
1 to 3 months overdue	2,671	38,497
4 to 12 months overdue	8	147
More than 12 months overdue	—	5
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Trade receivables	16,194	43,356

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.

11. Trade and other payables

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

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Due within 1 month or on demand	7,339	4,833
Due after 1 month but within 3 months	3,003	2,340
Due after 3 months but within 6 months	87	110
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Trade creditors	10,429	7,283

12. Share capital

	No. of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$1 each	500,000,000	500,000
<i>Issued and fully paid:</i>		
At 1 January 2004 and 30 June 2004	340,200,000	340,200

13. 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 2003	158,105	12,758	9,269	8,080	188	775,324	963,724
Movement during the year	–	–	5,555	2,847	24	–	8,426
Profit for the year	–	–	–	–	–	32,860	32,860
Dividend	–	–	–	–	–	(3,402)	(3,402)
At 31 December 2003 and at 1 January 2004	158,105	12,758	14,824	10,927	212	804,782	1,001,608
Movement during the period	–	–	(230)	–	(30)	–	(260)
Profit for the period	–	–	–	–	–	32,287	32,287
Dividend	–	–	–	–	–	(3,402)	(3,402)
At 30 June 2004	158,105	12,758	14,594	10,927	182	833,667	1,030,233

The application of the share premium is governed by section 48B of the Hong Kong Companies Ordinance.

The legal reserve is non-distributable and represents transfers from annual profits up to a maximum of 20 percent of the issued and paid up capital of the Macau subsidiaries in accordance with the Macau Commercial Code.

The exchange reserve of the Group arises on translation of the financial statements of foreign subsidiaries and associates.

The investment property revaluation and investment revaluation reserves have been set up and dealt in accordance with the accounting policies adopted for the revaluation of investment properties and non-trading investments.

14. Commitments

At 30 June 2004, the Group had commitments in respect of development expenditure not provided for in the financial statements as follows:

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Contracted for	66,794	29,890
Authorised but not contracted for	—	—
	<u>66,794</u>	<u>29,890</u>

15. Contingent liabilities

- (a) At 30 June 2004, there were outstanding counter indemnities relating to guarantees issued by a subsidiary's bankers in favour of the Macau SAR Government in respect of properties under development amounting to HK\$6,311,000 (31 December 2003: HK\$6,311,000).
- (b) At 30 June 2004, there were guarantees given by a subsidiary to banks on behalf of purchasers of flats amounting to HK\$Nil (31 December 2003: HK\$37,379,000).
- (c) 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 phase 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 phase of the development project will be completed by 4 September 2005.
- (d) At 30 June 2004, guarantees given by the Company to banks to secure banking facilities made available to the subsidiaries and associates amounted to HK\$134,624,000 (31 December 2003: HK\$182,312,000) and HK\$59,945,000 (31 December 2003: HK\$61,980,000) respectively.
- (e) At 30 June 2004, guarantees given by a subsidiary to a bank to secure banking facilities made available to an associate amounted to HK\$36,269,000 (CA\$6,250,000) (31 December 2003: HK\$37,500,000 (CA\$6,250,000)).
- (f) 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 2004, the guarantee granted by the subsidiary amounted to HK\$62,200,000 (US\$8,000,000) (31 December 2003: HK\$62,024,000 (US\$8,000,000)).

16. Material related party transactions

During the six months ended 30 June 2004, certain subsidiaries of the Company had the following transactions, which were on normal commercial terms, with Goodland Limited ("Goodland"), an affiliated company which holds 45% of the issued shares of the Company at 30 June 2004:

- (a) A current account was maintained between Goodland and Ocean Incorporation Ltd. and interest was charged on the outstanding balance at market rates. At 30 June 2004, the balance due by Ocean Incorporation Ltd. on this account amounted to HK\$7,863,000 (31 December 2003: HK\$60,995,000). The interest charge for the six months ended 30 June 2004 was HK\$44,000 (2003: HK\$622,000).
- (b) Goodland maintains an interest bearing current account with Golden Crown. At 30 June 2004, the balance due by Golden Crown amounted to HK\$632,000 (31 December 2003: HK\$92,000). The interest charge for the six months ended 30 June 2004 payable by Golden Crown was HK\$3,000 (2003: HK\$3,000).

At 30 June 2004, the balances due to Goodland by Ocean Place Joint Venture Company Limited ("OPJV"), Golden Crown and Hubei Qing Chuan Hotel Company Limited ("Qing Chuan"), on non-interest bearing accounts amounted to HK\$15,000 (31 December 2003: HK\$8,841,000), HK\$13,620,000 (31 December 2003: HK\$31,986,000) and HK\$4,391,000 (31 December 2003: HK\$3,428,000) respectively.

- (c) Loans from minority shareholders include amounts due to Goodland of HK\$147,333,000 (31 December 2003: HK\$141,660,000) which are non-interest bearing.
- (d) 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 2004 (2003: HK\$506,000).
- (e) Ocean Incorporation Ltd., OPJV and Golden Crown paid management fees to Goodland amounted to HK\$728,000 (2003: HK\$728,000), HK\$874,000 (2003: HK\$874,000) and HK\$120,000 (2003: HK\$3,120,000) respectively for the six months ended 30 June 2004.
- (f) Golden Crown rented certain properties from Goodland and rental amounting to HK\$87,000 (2003: HK\$87,000) was paid during the six months ended 30 June 2004.
- (g) The Company, Goodland, Larch Management Incorporated and AKA Project Management International Limited provided a guarantee, on a joint and several basis, to a bank in connection with a term loan facility obtained by a subsidiary of the Company, Qing Chuan.

A term loan facility of up to an aggregate principal amount of US\$3,800,000 (approximately HK\$29,640,000) was made available by the bank for a period of three years subject to the terms and conditions of a facility agreement between Qing Chuan and the bank entered into on 26 March 2004. The interest rate shall be the sum of 1.46% per annum and 3 or 6 months' LIBOR at Qing Chuan's option. It is intended that Qing Chuan will choose whichever is the lower of LIBOR on an interest payment date.

Kansas Holdings Limited provides management services to the Company. No management fee was charged during the six months ended 30 June 2003 and 30 June 2004.

Keck Seng Realty Investment Pte Limited acts as manager and sale agent for the Company's property in Singapore. No management or agency fee was charged during the six months ended 30 June 2003 and 30 June 2004.

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