

MAGNIFICENT ESTATES LIMITED
(華 大 地 產 投 資 有 限 公 司)



Interim Report 2002
二 零 零 二 年 中 期 報 告

MANAGEMENT COMMENTARY

INTERIM RESULTS

The board of directors (the "Board") of Magnificent Estates Limited (the "Company") announces the unaudited consolidated profit after taxation of the Company and its subsidiaries (together the "Group") for the six months ended 30th June, 2002 amounted to approximately HK\$27,650,000 (30/9/2001: loss of HK\$9,459,000).

The results of the Group for the six months ended 30th June, 2002 and its financial position as at that date are set out in the condensed financial statements on pages 6 to 18 of this report.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 30th June, 2002 (30/9/2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the financial period under review, the Group continued with its operations of property investment, property development and trading, property leasing, investment in and operation of hotel and service apartment and investment holding. The increase in turnover and profit for the period was mainly due to the disposal of a commercial/residential building of the Group.

Operating income from the Group's hotel improved moderately as a result of the continued process of cost control as the hotel business environment remained highly competitive. The average occupancy rate of the hotel for the period under review was approximately 87% at reduced room rates.

As to property leasing, the Group's investment properties maintained an overall occupancy of approximately 95% during the financial period under review.

As regards property development, superstructural works of the Group's 34 town houses project at Ho Chung has been contracted to commence during July 2002 and the development is expected to be completed in a year's time.

During the second quarter of 2002, the Group has disposed of in strata-title sales most of the Aspen Court at No.46, High Street, Hong Kong which is a 26-storey commercial/residential building. The disposal has realized a net surplus approximately HK\$25,000,000.

In Shanghai, the PRC, the Group's development project at Xizang Road has been completed and the business of short-term leasing of the units has commenced since April 2002.

As at 30th June, 2002, gearing of the Group in terms of external bank borrowings was around 16.9%. The Group's external bank borrowings amounting to approximately HK\$184 million at 30th June, 2002 were secured by certain properties, listed securities and other assets of the Group with an aggregate carrying value of approximately HK\$783 million. These bank borrowings carry interest at floating interest rates and are mainly denominated in Hong Kong dollar or U.S. dollar. Accordingly, the exchange risk of the Group is minimal.

There were no material acquisitions and disposals of subsidiaries and associates during the period.

There were no material changes in the contingent liabilities of the Group since 31st December, 2001.

During the financial period under review, there was no significant changes in the Group's staffing level and remuneration and benefits were set with reference to the market.

In general, the Board expects the business environment in Hong Kong remains difficult and dependent on the recovery prospects of the world's major economies. As such, the Group will continue to follow a cautious approach in its business development.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the period.

DIRECTORS' INTERESTS IN SHARES, DEBT SECURITIES AND RIGHTS TO SUBSCRIBE FOR SHARES

At 30th June, 2002, the beneficial interests of the directors and their associates in the issued ordinary shares, debt securities and rights to subscribe for shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Corporate interests

Shares of HK\$0.01 each in the Company	
– William Cheng Kai Man	1,710,629,620 shares (<i>Note 1</i>)
Convertible bonds of the Company	
– William Cheng Kai Man	HK\$86,604,175 (<i>Note 2</i>)
Warrants of the Company	
– William Cheng Kai Man	629,361,166 units (<i>Note 2</i>)

Notes:

1. At 30th June, 2002, Trillion Resources Limited, a company controlled by Mr. William Cheng Kai Man, beneficially held 146,930,150 ordinary shares in Shun Ho Resources Holdings Limited (“Shun Ho Resources”) and Shun Ho Group Limited, a subsidiary of Trillion Resources Limited, beneficially held 988,600 ordinary shares in Shun Ho Resources, representing approximately 48.3% and 0.3% of its issued share capital respectively. Mr. William Cheng Kai Man also had personal interests in 6,087,375 ordinary shares in Shun Ho Resources, representing 2% of its issued share capital. Shun Ho Resources and its subsidiaries in turn beneficially held 266,889,172 ordinary shares in Shun Ho Technology Holdings Limited (“Shun Ho Technology”), representing approximately 49.7% of its issued share capital. As at that date, Shun Ho Technology and its subsidiary beneficially held 1,710,629,620 ordinary shares in the Company, representing approximately 51.0% of the Company’s issued share capital. Therefore, Mr. William Cheng Kai Man was deemed to have interests in the ordinary shares of the Company, its subsidiaries and associates.

At 30th June, 2002, the subsidiaries of the Company beneficially held a total of 62,602,700 and 83,739,510 ordinary shares in Shun Ho Resources and Shun Ho Technology respectively, representing approximately 20.6% and 15.6% interests in their issued share capital respectively.

2. Shun Ho Technology together with a subsidiary beneficially held convertible bonds of the Company with an aggregate principal amount of HK\$86,604,175 and 629,361,166 units of warrants of the Company, representing approximately 97.4% of the total principal amount of convertible bonds and 97.6% of the total units of warrants outstanding at 30th June, 2002.

The Company adopted a Share Option Scheme For Employees (the “Scheme”) on 27th September, 1990 for the primary purpose of providing incentives to directors and employees. The Scheme lapsed on 27th September, 2000.

In relation to the Scheme, no share option was granted to any employees, suppliers or other participants. Particulars of outstanding share options at the beginning and end of the period were as follows:

Name	Number of shares issuable under options	Date of grant	Exercisable period		Subscription price per share HK\$
			From	To	
William Cheng Kai Man	43,799,524	29/6/1994	30/6/1994	29/6/2004	0.20

Share options may be exercised at any time after the date upon which the share option is deemed to be granted and accepted (“the Commencement Date”) and ending with the date which is ten years after the Commencement Date.

No participant with share options granted in excess of the individual limit. No share options were granted, exercised, cancelled or lapsed during the period.

Other than as disclosed above and save for shares in subsidiaries held by a director in trust for their immediate holding companies, at 30th June, 2002, none of the directors or their associates, had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or their associates or their spouses or children under the age of 18, had any right to subscribe for the equity or debt securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2002, the interest of every person, other than a director or chief executive of the Company, in the equity securities of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

Name	Number of shares
Shun Ho Technology Holdings Limited	1,710,629,620
Shun Ho Resources Holdings Limited (<i>Note 1</i>)	1,710,629,620
Shun Ho Group Limited (<i>Note 1</i>)	1,710,629,620
Trillion Resources Limited (<i>Note 1</i>)	1,710,629,620
Madam Liza Lee Pui Ling (<i>Note 2</i>)	1,710,629,620

Notes:

1. Shun Ho Resources Holdings Limited, Shun Ho Group Limited and Trillion Resources Limited were taken to be interested in 1,710,629,620 shares in the Company by virtue of their direct and indirect interests in Shun Ho Technology Holdings Limited by virtue of Section 8(2) of the SDI Ordinance.
2. Madam Liza Lee Pui Ling, the spouse of Mr. William Cheng Kai Man who is a director of the Company, was taken to be interested in 1,710,629,620 shares in the Company by virtue of Section 8(1) of the SDI Ordinance.

Other than as disclosed above, the Company has not been notified of any other interests representing 10 per cent or more of the Company's issued share capital at 30th June, 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting policies adopted by the Group and discussed with management auditing, internal control and financial reporting matters, including the review of this interim report.

CORPORATE GOVERNANCE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board

Peter LEE Yip Wah
Secretary

Hong Kong, 19th September, 2002

INDEPENDENT REVIEW REPORT

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TO THE BOARD OF DIRECTORS OF MAGNIFICENT ESTATES LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 6 to 18.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2002.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 19th September, 2002

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

		Six months ended	
	Notes	30.6.2002	30.9.2001
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
			(Note 1)
Turnover	3	138,418	123,419
Cost of sales		(77,029)	(96,159)
Other service costs		(14,366)	(13,831)
		<u>47,023</u>	<u>13,429</u>
Other operating income		1,470	1,043
Unrealised holding loss on trading securities		(217)	(7,174)
Administrative expenses		(11,995)	(9,653)
		<u>47,023</u>	<u>13,429</u>
Profit (loss) from operations	4	36,281	(2,355)
Finance costs	5	(4,923)	(5,824)
Share of results of associates		1,634	(1,013)
		<u>36,281</u>	<u>(2,355)</u>
Profit (loss) from ordinary activities before taxation		32,992	(9,192)
Taxation	6	(5,342)	(267)
		<u>32,992</u>	<u>(9,192)</u>
Net profit (loss) for the period		<u>27,650</u>	<u>(9,459)</u>
		HK Cents	HK Cents
Earnings (loss) per share	7		
Basic		0.824	(0.293)
		<u>0.824</u>	<u>(0.293)</u>
Diluted		0.618	N/A
		<u>0.618</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2002

	<i>Notes</i>	30.6.2002 HK\$'000 (unaudited)	31.12.2001 HK\$'000 (audited)
Non-current Assets			
Investment properties	8	500,600	500,600
Property, plant and equipment	8	575,898	566,397
Properties under development		108,269	106,470
Interests in associates		93,756	97,107
Investments in securities		32,082	34,661
		1,310,605	1,305,235
Current Assets			
Inventories		482	404
Properties for sale		6,250	70,653
Investments in securities		30,649	28,596
Trade and other receivables	9	94,210	3,481
Deposits and prepayments		1,439	1,686
Trade balance due from a shareholder		276	171
Pledged bank deposits		3,629	5,617
Bank balances and cash		13,741	5,036
		150,676	115,644
Current Liabilities			
Trade and other payables	10	16,587	6,304
Rental and other deposits received		5,537	5,474
Advance from a shareholder		70,749	94,084
Advance from a director		–	23,158
Trade balance due to an associate		12	137
Taxation payable		5,658	1,061
Bank loans	11	183,777	136,116
Bank overdrafts		13	973
		282,333	267,307
Net Current Liabilities		(131,657)	(151,663)
		1,178,948	1,153,572
Capital and Reserves			
Share capital	12	33,536	33,536
Reserves		1,056,855	1,031,941
		1,090,391	1,065,477
Non-current Liabilities			
Convertible bonds	13	88,557	88,095
		1,178,948	1,153,572

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	Share capital	Share premium	Special capital reserve	Hotel property revaluation reserve	Investment property revaluation reserve	Securities revaluation reserve	Goodwill on consolidation	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2001	32,235	114,369	612,477	194,406	2,558	(40,717)	(923)	221,011	1,135,416
Issue of shares	1	2	-	-	-	-	-	-	3
Share of reserve of an associate	-	-	-	-	(2,128)	-	-	-	(2,128)
Decrease on revaluation of other securities not recognised in the income statement	-	-	-	-	-	(9,139)	-	-	(9,139)
Net loss for the period	-	-	-	-	-	-	-	(9,459)	(9,459)
At 30th September, 2001	<u>32,236</u>	<u>114,371</u>	<u>612,477</u>	<u>194,406</u>	<u>430</u>	<u>(49,856)</u>	<u>(923)</u>	<u>211,552</u>	<u>1,114,693</u>
At 1st January, 2002	33,536	120,865	612,477	138,406	2,128	(51,580)	(923)	210,568	1,065,477
Decrease on revaluation of other securities not recognised in the income statement	-	-	-	-	-	(2,736)	-	-	(2,736)
Net profit for the period	-	-	-	-	-	-	-	27,650	27,650
At 30th June, 2002	<u>33,536</u>	<u>120,865</u>	<u>612,477</u>	<u>138,406</u>	<u>2,128</u>	<u>(54,316)</u>	<u>(923)</u>	<u>238,218</u>	<u>1,090,391</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	Six months ended	
	30.6.2002	30.9.2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited and restated)
		(Note 1)
Net cash generated from operating activities	18,502	78,372
Net cash used in investing activities	(4,173)	(21,647)
Net cash used in financing activities	(4,664)	(54,821)
Net increase in cash and cash equivalents	9,665	1,904
Cash and cash equivalents at beginning of the period	4,063	3,809
Cash and cash equivalents at end of the period	<u>13,728</u>	<u>5,713</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	13,741	6,200
Bank overdrafts	(13)	(487)
	<u>13,728</u>	<u>5,713</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

1. BASIS OF PREPARATION

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 (“HKSA”).

In 2001, the directors of the Company resolved to change the financial year end date of the Company from 31st March to 31st December to bring the financial year end date in line with that of its holding company. The last set of audited financial statements therefore cover the nine-month period from 1st April, 2001 to 31st December, 2001. As a result of the change in financial year end date, the condensed financial statements for the current period cover the six-month period from 1st January, 2002 to 30th June, 2002. The comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes cover the six-month period from 1st April, 2001 to 30th September, 2001 and therefore may not be comparable with the amounts shown for the current period.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain 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 nine months ended 31st December, 2001.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs issued by the HKSA:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement. Apart from a provision for employees’ entitlement to annual leave of approximately HK\$1.9 million made in the current period following the adoption of SSAP 34, the adoption of these new and revised SSAPs has had no effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

Business segments

The businesses based on which the Group reports its primary segment information are as follows:

Hospitality services	– investment in and operation of hotel and service apartment
Property investment	– property letting
Property development and trading	– development and trading of properties
Securities investment and trading	– investment in and trading of listed securities

Segment information about these businesses is presented below:

Six months ended 30th June, 2002

	Hospitality services HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Securities investment and trading HK\$'000	Other Operations HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	<u>17,939</u>	<u>11,598</u>	<u>106,997</u>	<u>1,261</u>	<u>623</u>	<u>138,418</u>
RESULT						
Segment result	<u>3,686</u>	<u>11,122</u>	<u>31,458</u>	<u>212</u>	<u>623</u>	47,101
Unallocated corporate expenses less amounts reimbursed by related companies						<u>(10,820)</u>
Profit from operations						<u>36,281</u>

Six months ended 30th September, 2001

	Hospitality services HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Securities investment and trading HK\$'000	Other Operations HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	<u>15,966</u>	<u>13,108</u>	<u>–</u>	<u>94,308</u>	<u>37</u>	<u>123,419</u>
RESULT						
Segment result	<u>1,443</u>	<u>12,588</u>	<u>–</u>	<u>(8,182)</u>	<u>37</u>	5,886
Unallocated corporate expenses less amounts reimbursed by related companies						<u>(8,241)</u>
Loss from operations						<u>(2,355)</u>

Geographical segment

Substantially all the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and contributions to operating results for both periods presented were derived from Hong Kong.

4. PROFIT (LOSS) FROM OPERATIONS

	Six months ended	
	30.6.2002	30.9.2001
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Depreciation on property, plant and equipment	1,625	1,614
Dividends from listed investments	(277)	(2,289)
Interest income	(2,123)	(2,062)
Gain on disposal of property, plant and equipment	<u>-</u>	<u>(90)</u>

5. FINANCE COSTS

	Six months ended	
	30.6.2002	30.9.2001
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts	2,111	3,001
Other loans wholly repayable within five years	1,486	3,302
Convertible bonds	2,204	1,855
Bond issue expenses amortised	<u>462</u>	<u>345</u>
Total borrowing costs	6,263	8,503
Less: Amount capitalised in properties under development	<u>(1,340)</u>	<u>(2,679)</u>
	<u>4,923</u>	<u>5,824</u>

6. TAXATION

	Six months ended	
	30.6.2002	30.9.2001
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Company and subsidiaries	5,157	136
Associates	185	131
	<u>5,342</u>	<u>267</u>

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the period.

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	Six months ended	
	30.6.2002	30.9.2001
	HK\$'000	HK\$'000
Net profit (loss) for the period for the purposes of basic earnings (loss) per share	27,650	(9,459)
Effect of dilutive potential ordinary shares		
Interest on convertible bonds	2,240	N/A
Earnings (loss) for the purposes of diluted earnings per share	<u>29,890</u>	<u>(9,459)</u>
	Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	3,353,614,126	3,223,595,851
Effect of dilutive potential ordinary shares		
Convertible bonds	1,481,736,051	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>4,835,350,177</u>	<u>3,223,595,851</u>

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options and warrants as the exercise prices of these options and warrants are higher than the average market price for shares for the current period.

No diluted loss per share has been calculated for the six months ended 30th September, 2001 as the exercise of the share options and warrants and the conversion of the convertible bonds would result in a decrease in the loss per share.

8. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors have considered the carrying amount of the Group's investment properties and hotel properties at 30th June, 2002 and are of the opinion that the carrying amounts do not differ significantly from the open market value of the properties at the balance sheet date. Accordingly, no surplus or deficit has been recognised in the current period.

During the period ended 30th June, 2002, the Group acquired property, plant and equipment at a total cost of HK\$11,126,000 and the development of the Group's property in Shanghai with a carrying amount of HK\$89,430,000 was completed.

9. TRADE AND OTHER RECEIVABLES

Except for an average credit period of 30 to 60 days granted to travel agencies and certain customers of the hotel, the Group does not allow any credit period to its customers.

The following is an aged analysis of trade and other receivables at the balance sheet date:

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
0-30 days	93,261	2,320
31-60 days	663	513
Over 60 days	286	648
	94,210	3,481

10. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables at the balance sheet date:

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
0-30 days	13,144	2,567
31-60 days	168	486
Over 60 days	3,275	3,251
	16,587	6,304

11. BORROWINGS

During the period ended 30th June, 2002, the Group repaid bank loans amounted to HK\$10,000,000 and obtained new bank loans of HK\$57,661,000. The new bank loans, which bear interest at market rates and are repayable within one year, were used to finance the construction of properties and for settlement of the advances from related parties.

12. SHARE CAPITAL

(a) Ordinary shares

	Number of ordinary shares of HK\$0.01 each		Nominal value	
	30.6.2002 '000	31.12.2001 '000	30.6.2002 HK\$'000	31.12.2001 HK\$'000
Authorised:				
At beginning and end of the period	<u>80,000,000</u>	<u>80,000,000</u>	<u>800,000</u>	<u>800,000</u>
Issued and fully paid:				
At beginning of the period	3,353,614	3,223,567	33,536	32,235
Exercise of convertible bonds	—	130,047	—	1,301
At end of the period	<u>3,353,614</u>	<u>3,353,614</u>	<u>33,536</u>	<u>33,536</u>

(b) Share options

During the period ended 30th June, 2002, no options under the Company's share option scheme were granted, exercised, lapsed or cancelled. Share options outstanding at 30th June, 2002 comprised options to subscribe for 43,799,524 ordinary shares at a subscription price of HK\$0.2 per share previously granted to a director which are exercisable on or before 29th June, 2004.

(c) Warrants

At 30th June, 2002, a total of 644,713,356 units of warrants issued by the Company in prior year were outstanding. The warrants, which carry an aggregate subscription right of HK\$22,564,967, entitle the holders thereof to subscribe for shares of the Company at the subscription price of HK\$0.035 per share, subject to adjustment, during the three months period commencing from 14th November, 2002.

13. CONVERTIBLE BONDS

	30.6.2002 HK\$'000	31.12.2001 HK\$'000
Unsecured convertible bonds	88,904	88,904
Less: Unamortised bond issue expenses	(347)	(809)
	<u>88,557</u>	<u>88,095</u>

At 30th June, 2002, a total of 1,481,736,051 units (31.12.2001: 1,481,736,051 units) of convertible bonds, which were issued in 2001, were outstanding. The Bonds, which carry interest at 5 per cent per annum payable quarterly in arrears with the last payment due on 14th November, 2002, entitle the holders thereof to convert the Bonds into shares of the Company at a conversion price of HK\$0.06 per share during the period from 14th May, 2001 to 14th November, 2002 (the "Maturity Date"). The Company may redeem all or some of the Bonds at any time prior to the Maturity Date, subject to giving not less than 30 days nor more than 60 days of advance notice, at 120 per cent of their principal amount together with accrued interest. On the Maturity Date, any units of the Bonds not redeemed, repaid or converted will be mandatorily converted into shares of the Company at the conversion price.

14. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding commitments in respect of property development expenditure as follows:

	30.6.2002 HK\$'000	31.12.2001 HK\$'000
Contracted for but not provided in the financial statements	<u>–</u>	<u>10,142</u>
Authorised but not contracted for	<u>38,398</u>	<u>1,853</u>

15. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

- (a) At the balance sheet date, the bank loan facilities of subsidiaries, which were utilised to the extent of approximately HK\$184 million (31.12.2001: HK\$136 million), were secured by the following:
- guarantees issued by the Company amounted to HK\$254 million (31.12.2001: HK\$164 million);
 - properties of the Group together with related assets with an aggregate carrying book value of approximately HK\$721 million (31.12.2001: HK\$554 million);
 - pledge of shares in and subordination of loans due from subsidiaries with a carrying value of approximately HK\$168 million (31.12.2001: HK\$177 million);
 - assignment of the rentals and hotel revenue of a subsidiary; and
 - pledge of the listed securities and bank deposits held by subsidiaries with a carrying value of approximately HK\$58 million (31.12.2001: HK\$55 million) and HK\$3.6 million (31.12.2001: HK\$5.6 million) respectively.
- (b) At 30th June, 2002, certain employees of the Group had completed the required number of years of service under Hong Kong's Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 30th June, 2002, under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$2,116,000 (31.12.2001: HK\$2,250,000). No provision has been made in the financial statements in respect of such long service payments.

16. RELATED PARTY TRANSACTIONS

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

- (a) The property owned by a subsidiary of the Company's immediate holding company, Shun Ho Technology Holdings Limited ("Shun Ho Technology"), was leased to the Group at the agreed rental of HK\$90,000 (six months ended 30.9.2001: HK\$90,000) per month. Net rental paid by the Group for the period amounted to HK\$520,000 (six months ended 30.9.2001: HK\$520,000).
- (b) During the period, Shun Ho Technology made unsecured advances to the Group which carried interest based on Hong Kong Inter-bank Offer Rate plus a specified margin and are repayable on demand. Interest payable by the Group on such advances amounted to HK\$1,369,000 (six months ended 30.9.2001: HK\$2,914,000) in respect of the period. At the balance sheet date, such advances amounted to HK\$70,921,000 (31.12.2001: HK\$94,021,000) remained outstanding.

- (c) During the period, Mr. William Cheng Kai Man, a director of the Company, made unsecured advances to the Group which carried interest chargeable at bank fixed deposit rates and are repayable on demand. Interest payable by the Group on such advances amounted to HK\$118,000 (six months ended 30.9.2001: HK\$388,000) in respect of the period.
- (d) During the period, a subsidiary, Claymont Services Limited, made unsecured advances with no fixed repayment terms to its associate, Lucky Country Development Limited. Such advances to the extent of HK\$60,000,000 (six months ended 30.9.2001: HK\$60,000,000) carried interest chargeable at the rate of 5% (six months ended 30.9.2001: 5% to 8.5%) per annum and the remaining balance was interest free. Interest receivable by the Group on such advances amounted to HK\$1,500,000 (six months ended 30.9.2001: HK\$2,025,000) in respect of the period. At the balance sheet date, such advances amounted to HK\$89,086,000 (31.12.2001: HK\$91,636,000) remained outstanding.
- (e) At 30th June, 2002, the Group had trade balance due by the intermediate holding company amounting to a total of HK\$276,000 (31.12.2001: HK\$171,000) which is unsecured, interest free and repayable on demand.
- (f) During the period, the Group provided administrative facilities to Shun Ho Technology and its shareholder, Shun Ho Resources Holdings Limited, for which fees totalling HK\$830,000 (six months ended 30.9.2001: HK\$849,000) and HK\$75,000 (six months ended 30.9.2001: HK\$75,000), calculated on a cost reimbursement basis, were respectively charged.
- (g) During the period, interest payable on the convertible bonds to Shun Ho Technology and its subsidiaries amounted to HK\$2,147,000 (six months ended 30.9.2001: HK\$1,810,000) in respect of the period.