

Notes to the Interim Financial Report

31 DECEMBER 2003

1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT AND PRINCIPAL ACCOUNTING POLICIES

- a. On 7 June 2003, the Court appointed Mr. Stephen Liu Yiu Keung and Mr. Yeo Boon Ann, of Ernst & Young Transactions Limited, as the joint and several receivers of the Company. The appointment requires the Receivers to take all appropriate actions to preserve the assets of the Company, to carry on the businesses of the Company and to do all other things as reasonably necessary for the purpose of protecting the value of the Company's assets and businesses.

On 16 December 2003, the Shanghai AIC endorsed:

- the change of legal representative for Longbai to Mr. Yeo Boon Ann; and
- the appointment of the Receivers and Mr. Laurence Yegene Ip as Longbai's directors.

Subsequent to the balance sheet date on 15 January 2004, the Shanghai AIC further endorsed:

- the change of legal representative for Hongxin to Mr. Yeo Boon Ann; and
- the appointment of the Receivers and Mr. Laurence Yegene Ip as Hongxin's directors.

The Receivers have taken all reasonable steps and have used their best endeavours to prepare the Group's interim financial report for the six months ended 31 December 2003. Despite their efforts in ascertaining the affairs of the Group, the Receivers have only had limited access to the books and records of Hongxin and certain original documents of Longbai are not available to the Receivers. The management accounts of Hongxin as at 30 June 2003 were used in the preparation of this interim financial report because Hongxin's management accounts for the period from 1 July 2003 to 31 December 2003 are not available as the former legal representative of Hongxin has yet to surrender the relevant books and records.

In addition, Bowyer appointed Shanghai Nongkai as manager to act on its behalf for all matters relating to the leasing of its investment properties in Jun Ling Plaza and to act as trustee to receive income and to make payments of expenses related thereto. Shanghai Nongkai has prepared monthly financial reports in respect of the leasing status and cash position of Bowyer's investment properties in Jun Ling Plaza. However, the Receivers have not yet received sufficient information or documents from Shanghai Nongkai to ascertain whether Bowyer's transactions have been properly accounted for in the interim financial report.

In light of the above, the Receivers are unable to give an unqualified representation that all transactions affecting the Group during the six months ended 31 December 2003 have been included in the interim financial report and also as to whether the interim financial report presents a true and fair view of the Group's operations and cash flows for the six months ended 31 December 2003 and the Group's financial position as at that date. The Receivers therefore disclaim all liabilities in respect of the interim financial report of the Group in relation to the affairs of the Group for the six months ended 31 December 2003.

Notes to the Interim Financial Report *(Continued)*

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1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Board has relied on the Receivers to carry on the business of the Company and to do all other things as reasonably necessary for the purpose of protecting the value of the Company's assets and its businesses. In view of the limitations on the information accessed by the Receivers mentioned above, the Board has not been able to give an unqualified representation that all transactions affecting the Group during the six months ended 31 December 2003 have been included and that the interim financial report presents a true and fair view of the Group's operations and cash flows for the six months ended 31 December 2003 and the financial position of the Group as at that date. The Board therefore disclaims all liabilities in respect of the interim financial report of the Group in relation to the affairs of the Group for the six months ended 31 December 2003.

- b. This interim financial report is unaudited, but has been reviewed by Nexia Charles Mar Fan & Co. ("NCMF") in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants ("HKSA"). NCMF's independent review report to the Board is included on pages 13 to 15.

The interim financial report has been prepared in accordance with the requirements of the Listing Rules 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 30 June 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. Such financial statements for the year ended 30 June 2003 are available from the Company's registered office. The auditors expressed a disclaimer opinion on those financial statements in their report dated 27 October 2003.

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 30 June 2003, except for the adoption of SSAP 12 (Revised) "Income taxes" which became effective in the current interim period.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred taxation. In prior years, deferred taxation was provided for using the income statement liability method on all significant timing differences to the extent it was probable that the liability would crystallise in the foreseeable future. A deferred tax asset was not recognised until its realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred taxation 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 has been applied retrospectively.

Notes to the Interim Financial Report *(Continued)*

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1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The change in accounting policy has resulted in the following changes to the Group's reported balances of deferred tax liabilities and negative goodwill:

	Balance per SSAP 12		Balances per SSAP 12 (Revised)	
	31 December 2003 <i>HK\$'000</i>	30 June 2003 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>	30 June 2003 <i>HK\$'000</i>
Deferred tax liabilities	–	–	99,623	99,491
Negative goodwill	<u>112,396</u>	<u>114,136</u>	<u>–</u>	<u>–</u>

As a consequence, the consolidated loss attributable to the shareholders for the six months ended 31 December 2003 has been increased by HK\$1,872,000 and the consolidated profit attributable to the shareholders for the six months ended 31 December 2002 has been decreased by HK\$7,000, and the consolidated accumulated losses at 1 July 2003 have been reduced by HK\$14,645,000, as detailed in the condensed consolidated statement of changes in equity on page 18. There was no effect on the consolidated accumulated losses as at 1 July 2002.

As the Receivers have not been able to ascertain whether certain balances relating to Hongxin, Longbai and Bowyer have been properly accounted for in the consolidated balance sheet as at 30 June 2003, they are unable to confirm the accuracy and completeness of the above adjustments arising from the adoption of SSAP 12 (Revised).

Notes to the Interim Financial Report *(Continued)*

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2. SEGMENTAL INFORMATION

The Group is principally engaged in property investment and hotel investment.

Business segments

Business segment analysis is chosen for the primary reporting format as the Group's results were principally affected by hotel investment, property investment and property development activities during the six months ended 31 December 2003 and property investment and wireless technology investment activities during the six months ended 31 December 2002.

	Six months ended 31 December									
	Hotel investment		Property investment		Property development		Wireless technology investment		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	25,921	-	944	744	-	-	-	-	26,865	744
Segment results	8,789	-	780	582	-	-	-	-	9,569	582
Interest income									6,266	17,153
Management fee income									-	166
Unallocated administrative expenses net of other revenue									(45,177)	(15,411)
Profit/(loss) from operations									(29,342)	2,490
Amortisation of goodwill	-	-	-	(7)	-	-	-	-	-	(7)
Finance costs									(10,326)	-
Profit/(loss) from ordinary activities before taxation									(39,668)	2,483
Taxation	(132)	-	(257)	(202)	-	-	-	-	(389)	(202)
Profit/(loss) attributable to shareholders									(40,057)	2,281

No inter-segment sales and transfers were transacted during the current and prior interim periods.

The Group disposed of all its wireless technology companies on 28 March 2003 and since then ceased its wireless technology investment activity.

Notes to the Interim Financial Report *(Continued)*

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2. SEGMENTAL INFORMATION *(Continued)*

Geographical segments

No geographical analysis is provided as the hotel investment, property investment and property development activities during the six months ended 31 December 2003 and the property investment activities during the six months ended 31 December 2002 were carried out in the PRC.

3. OTHER REVENUE

	Six months ended	
	31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	6,266	17,153
Management fee income	–	166
Sundry income	154	83
	<u>6,420</u>	<u>17,402</u>

4. PROFIT/(LOSS) FROM OPERATIONS

The Group's profit/(loss) from operations is arrived at after charging:

	Six months ended	
	31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for bad debts	2,837	–
Depreciation	1,045	561
Staff costs, including net retirement scheme contributions of HK\$36,000 (2002: HK\$94,000)	8,104	5,513
	<u>8,104</u>	<u>5,513</u>

5. FINANCE COSTS

	Six months ended	
	31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on purported loans wholly repayable within five years	10,326	–
	<u>10,326</u>	<u>–</u>

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6. TAXATION

	Six months ended	
	31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax in the PRC	257	202
Deferred tax	132	–
	<u>389</u>	<u>202</u>

- a. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong for both current and prior interim periods.
- b. Bowyer has provided income tax at the applicable tax rate of 33% on its estimated taxable income arising in the PRC for both current and prior interim periods.

7. BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the consolidated loss attributable to shareholders for the six months ended 31 December 2003 of HK\$40,057,000 (2002: Profit of HK\$2,281,000, as restated) and 3,051,438,765 shares (2002: 3,051,438,765 shares) in issue during the interim period. There were no dilutive potential ordinary shares in existence during the current and prior interim periods.

8. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors of HK\$2,680,000 (30 June 2003: HK\$1,424,000). The aging analysis of trade debtors is as follows:

	As at	As at
	31 December	30 June
	2003	2003
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
0 – 30 days	1,540	514
31 – 60 days	917	106
61 – 90 days	195	352
> 90 days	28	452
	<u>2,680</u>	<u>1,424</u>

The Group allows an average credit period of 60 days to its customers.

Notes to the Interim Financial Report *(Continued)*

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9. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors of HK\$1,550,000 (30 June 2003: HK\$2,102,000). The aging analysis of trade creditors is as follows:

	As at 31 December 2003 (Unaudited) HK\$'000	As at 30 June 2003 (Audited) HK\$'000
0 – 30 days	475	1,322
31 – 60 days	519	130
61 – 90 days	192	347
> 90 days	364	303
	<u>1,550</u>	<u>2,102</u>

10. PLEDGE OF ASSETS

As at 31 December 2003, the purported loan of RMB300,000,000 (equivalent to HK\$283,500,000) was allegedly secured by the Land while the purported loan of RMB350,000,000 (equivalent to HK\$330,750,000) was allegedly secured by Hotel Longbai.

11. CAPITAL COMMITMENTS

As at 31 December 2003, the Group had the following capital commitments:

	As at 31 December 2003 (Unaudited) HK\$'000	As at 30 June 2003 (Audited) HK\$'000
Contracted, but not yet provided for	–	633
Authorised, but not yet contracted for	661,500	661,500
	<u>661,500</u>	<u>662,133</u>

By a conditional sale and purchase agreement dated 25 April 2003, the Group sought to acquire the Dé Oriental London building in Shanghai from Fortune Harbour Limited. On 2 June 2003, the Company announced that the extraordinary general meeting scheduled to be held on 3 June 2003 to consider and approve the above agreement was postponed until further notice.

Notes to the Interim Financial Report *(Continued)*

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12. OPERATING LEASE ARRANGEMENTS

a. As lessor

As at 31 December 2003, the Group's total future minimum lease receivables under non-cancellable operating leases with its tenants falling due were as follows:

	Investment properties		Sub-tenancy of office properties		Total	
	As at	As at	As at	As at	As at	As at
	31 December	30 June	31 December	30 June	31 December	30 June
	2003	2003	2003	2003	2003	2003
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	634*	1,373	4,403	4,589	5,037	5,962
Later than one year, but not later than five years	125*	425	1,574	3,251	1,699	3,676
	<u>759</u>	<u>1,798</u>	<u>5,977</u>	<u>7,840</u>	<u>6,736</u>	<u>9,638</u>

* Certain tenancy agreements have been renewed during the interim period and are currently kept by Shanghai Nongkai. As these agreements are not available to the Board and the Receivers, the future minimum lease receivables under such leases cannot be quantified.

b. As lessee

As at 31 December 2003, the total future minimum lease payments under non-cancellable operating leases in respect of the office properties, staff quarters and certain office equipment were as follows:

	As at	As at
	31 December	30 June
	2003	2003
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Not later than one year	6,838	7,911
Later than one year, but not later than five years	<u>2,707</u>	<u>5,608</u>
	<u>9,545</u>	<u>13,519</u>

Notes to the Interim Financial Report *(Continued)*

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13. POST BALANCE SHEET EVENTS

a. Change of legal representative for Hongxin

On 15 January 2004, the Shanghai AIC endorsed the change of legal representative for Hongxin. As Hongxin's former legal representative is yet to surrender Hongxin's books and records, the Receivers are liaising with various parties and the relevant government authorities to secure Hongxin's assets.

b. PRC recovery actions

(i) Advance to 富友證券經紀有限責任公司 (*Fuyou Securities Brokerage Co., Limited*) ("*Fuyou*")

On 9 February 2004, the Receivers, in their capacity as Hongxin's and Longbai's directors, wrote to and met with Fuyou's representative to demand repayment of RMB44,500,000 due to Hongxin and RMB347,000,000 due to Longbai. Fuyou has yet to make any repayments. The Receivers have reported the matter to the relevant PRC government authorities and will continue to take all necessary recovery actions, where appropriate.

(ii) Advance to 上海機械國際貿易有限公司 (*Shanghai Mechanic International Trading Limited*) ("*Shanghai Mechanic*")

On 30 January 2004, the Receivers, in their capacity as Hongxin's directors, demanded Shanghai Mechanic to repay RMB222,900,000 due to Hongxin but have received no response to date. The Receivers have reported the matter to the relevant PRC government authorities and will continue to take all necessary recovery actions, where appropriate.

(iii) Advance to 上海華疊貿易有限公司 (*Shanghai Huatip Trading Limited*) ("*Huatip*")

On 30 January 2004, the Receivers, in their capacity as Hongxin's directors, demanded Huatip to repay RMB300,000,000 due to Hongxin but have received no response to date. The Receivers have reported the matter to the relevant PRC government authorities and will continue to take all necessary recovery actions, where appropriate.

14. LITIGATION AND CONTINGENT LIABILITIES

a. On 29 September 2003, the Solicitors applied to the Court to:

- set aside the judgment dated 21 August 2003 obtained by the Company against Mr. Chau in the sum of US\$34,200,000 plus interest; and
- vacate the Court order dated 28 August 2003 appointing the Receivers as the joint and several receivers of certain assets belonging to Mr. Chau.

On 10 October 2003, the Company applied to set aside the Solicitors' notice to act and Chau's Application.

On 5 November 2003, the Court ordered that Chau's Application would not be heard until after the final determination by the Court of the Company's Application.

On 8 January 2004, the Solicitors appealed against the Court order made on 5 November 2003, however, the Court upheld the order made on 5 November 2003.

Notes to the Interim Financial Report *(Continued)*

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14. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

b. On 5 February 2004, a public announcement was made concerning the legal proceedings the Receivers had initiated regarding the recovery of the Judgment Debt due from Mr. Chau. In response to this announcement, Sun Hung Kai & Co. Limited, Sun Tai Cheung Credits Limited and Sun Hung Kai Investment Services Limited instituted a libel action against the Company and a number of other parties. As the Receivers have no duty to brief the Board on this libel action, the Receivers have not provided the Board with full details of the action.

c. Profitex is continuing its action against Shun Loong to recover arrears of rent and other expenses under High Court Action No. 3868 of 2003.

On 18 March 2004, Profitex obtained a judgment against Shun Loong for the sum of HK\$2,378,000 (as at 18 March 2004) plus further interest and costs. Shun Loong has lodged an appeal which is fixed to be heard on 19 May 2004.

d. The Company has applied to the High People's Court of Shanghai, the PRC (上海市高級人民法院), to commence legal proceedings against various recipients including Fuyou, Shanghai Mechanic and Huatip who received RMB869,900,000 from Hongxin and Longbai. The High People's Court of Shanghai, the PRC, is still processing the Company's application.

e. Pursuant to the purported loan agreement dated 27 March 2003 signed by the legal representative of Hongxin in the PRC, the Land was purportedly pledged as the alleged security for a loan of RMB300,000,000 (equivalent to HK\$283,500,000) purportedly granted from SRCC to Hongxin for a term of one year commencing from 27 March 2003 with interest payable quarterly and charged at an interest rate of 5.31% per annum.

Pursuant to the purported loan agreement dated 11 April 2003 signed by the legal representative of Longbai in the PRC, Hotel Longbai was purportedly pledged as the alleged security for a loan of RMB350,000,000 (equivalent to HK\$330,750,000) purportedly granted from SRCC to Longbai for a term of five years commencing from 18 April 2003 with interest payable quarterly and charged at an interest rate of 5.58% per annum.

In accordance with the purported loan agreements signed by Hongxin and Longbai with SRCC, interest of approximately RMB99,520,000 has to be paid in the event of early termination.

According to available information, the term of Hongxin's purported loan of RMB300,000,000 is set to expire on 27 March 2004.

The Receivers understand that these purported loans were not duly authorised and approved by the Board. Accordingly, the Receivers have written to SRCC to request information and documents in relation to the purported loans. To date, the Receivers have not received any official reply from SRCC. Given the above, the quarterly interest payment of approximately RMB4,880,000 due on 20 March 2004 on Longbai's purported loan was not paid.

The Receivers recently met with the representatives of SRCC who demanded that Longbai and Hongxin make the repayments as per the purported loan agreements and have reserved SRCC's rights to take action if the Receivers fail to do so.

The Board and the Receivers consider that, given the nature of the claims and damages under dispute and the preliminary status of these proceedings, it is not possible to estimate the eventual outcome of the claims with reasonable certainty at this stage. As such, no provision has been made for claims and damages in the interim financial report.

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15. COMPARATIVE AMOUNTS

As further explained in note 1b to the interim financial report, due to the adoption of SSAP 12 (Revised), the accounting treatment and presentation of certain items and balances in the interim financial report have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been revised to conform with the current period's presentation.

16. APPROVAL OF THE INTERIM FINANCIAL REPORT

The interim financial report was approved and authorised for issue by the Board on 23 March 2004.