

# Interim Report 2003



Asia Orient  
Holdings Limited

## Corporate Information

### DIRECTORS

Mr. Fung Siu To, Clement (*Chairman*)  
Mr. Lim Yin Cheng (*Deputy Chairman*)  
Mr. Poon Jing (*Managing Director*)  
Mr. Lun Pui Kan  
Mr. Kwan Po Lam, Phileas  
Mr. Chan Sze Hung  
(*Independent Non-executive Director*)  
Mr. Cheung Kwok Wah, Ken  
(*Independent Non-executive Director*)

### AUDIT COMMITTEE

Mr. Chan Sze Hung  
Mr. Cheung Kwok Wah, Ken

### AUTHORISED REPRESENTATIVES

Mr. Fung Siu To, Clement  
Mr. Lun Pui Kan

### COMPANY SECRETARY

Ms. Chiu Yuk Ching

### REGISTERED OFFICE

Canon's Court,  
22 Victoria Street,  
Hamilton HM12,  
Bermuda

### PRINCIPAL OFFICE IN HONG KONG

30th Floor, Asia Orient Tower, Town Place,  
33 Lockhart Road, Wanchai,  
Hong Kong

Telephone 2866 3336  
Facsimile 2866 3772  
Website <http://www.asiaorient.com.hk>

### PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
Hang Seng Bank Limited  
The Bank of East Asia Limited  
Chiyu Banking Corporation Limited  
Liu Chong Hing Bank Limited  
Bank of Communications

### LEGAL ADVISERS

Stephenson Harwood & Lo  
18th Floor, Edinburgh Tower, The Landmark,  
15 Queen's Road Central,  
Hong Kong

Appleby, Spurling & Kempe  
5511 The Center,  
99 Queen's Road Central,  
Hong Kong

### AUDITORS

PricewaterhouseCoopers  
Certified Public Accountants  
22nd Floor, Prince's Building,  
Central, Hong Kong

### SHARE REGISTRAR IN BERMUDA

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre,  
11 Bermudiana Road,  
Pembroke,  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
17th Floor, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

## Consolidated Profit and Loss Account – Unaudited

		Six months ended 30th September	
		2003 HK\$'000	2002 HK\$'000
Turnover	3	<b>311,051</b>	662,354
Cost of sales		<b>(222,978)</b>	(484,240)
Gross profit		<b>88,073</b>	178,114
Administrative expenses		<b>(59,654)</b>	(71,663)
Provisions and other charges	4	<b>(85,675)</b>	(57,084)
Operating (loss)/profit	5	<b>(57,256)</b>	49,367
Finance costs	6	<b>(62,696)</b>	(65,030)
Share of profits less losses of			
Jointly controlled entities		<b>(8,059)</b>	(17,687)
Associated companies		<b>(51,472)</b>	(8,731)
Loss before taxation		<b>(179,483)</b>	(42,081)
Taxation credit/(charge)	7	<b>3,894</b>	(8,211)
Loss after taxation		<b>(175,589)</b>	(50,292)
Minority interests		<b>61,924</b>	(8,257)
Loss attributable to shareholders		<b>(113,665)</b>	(58,549)
Loss per share	8	<b>75.9 cents</b>	39.1 cents

## Consolidated Balance Sheet – Unaudited

	Note	30th September 2003 HK\$'000	31st March 2003 HK\$'000
Fixed assets		<b>4,451,023</b>	4,423,865
Jointly controlled entities		<b>311,795</b>	276,572
Associated companies		<b>610,417</b>	660,443
Long term investment		<b>1,601</b>	1,601
Goodwill	9	<b>34,068</b>	37,300
Mortgage loans receivable		<b>39,407</b>	34,277
Deferred tax assets		<b>55,348</b>	48,383
Current assets			
Properties held for/under development for sale		<b>1,006,532</b>	992,134
Completed properties held for sale		<b>641,314</b>	729,515
Hotel and restaurant inventories		<b>2,928</b>	2,910
Debtors and prepayments	10	<b>291,906</b>	280,904
Other investments		<b>150,112</b>	155,931
Tax recoverable		<b>792</b>	827
Bank balances and cash		<b>182,679</b>	268,843
		<b>2,276,263</b>	2,431,064
Current liabilities			
Creditors and accruals	11	<b>263,464</b>	245,565
Short term bank loans and overdrafts			
Secured		<b>211,707</b>	195,274
Unsecured		<b>42,285</b>	30,002
Current portion of long term loans	16	<b>227,919</b>	316,085
Taxation		<b>10,480</b>	10,301
		<b>755,855</b>	797,227
Net current assets		<b>1,520,408</b>	1,633,837
		<b>7,024,067</b>	7,116,278
Financed by:			
Share capital	12	<b>14,983</b>	14,983
Reserves	13	<b>2,120,064</b>	2,226,780
Shareholders' funds		<b>2,135,047</b>	2,241,763
Convertible bonds	14	<b>290,000</b>	290,000
Convertible notes	15	<b>106,000</b>	60,000
Long term loans	16	<b>2,213,731</b>	2,195,176
Deferred tax liabilities		<b>40,787</b>	38,728
Minority interests and loans		<b>2,238,502</b>	2,290,611
		<b>7,024,067</b>	7,116,278

## Condensed Consolidated Cash Flow Statement – Unaudited

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Net cash (used in)/from operating activities	<b>(87,268)</b>	214,202
Net cash from/(used in) investing activities	<b>6,553</b>	(991)
Net cash used in financing activities	<b>(31,316)</b>	(252,828)
Net decrease in cash and cash equivalents	<b>(112,031)</b>	(39,617)
Cash and cash equivalents at beginning of period	<b>111,152</b>	219,733
Changes in exchange rates	<b>(441)</b>	(2,847)
Cash and cash equivalents at end of period	<b>(1,320)</b>	177,269
Analysis of the balances of cash and cash equivalents		
Bank balances and cash (excluding pledged deposits and balance held in trust)	<b>117,922</b>	281,626
Bank overdrafts	<b>(119,242)</b>	(104,357)
	<b>(1,320)</b>	177,269

## Consolidated Statement of Changes in Equity – Unaudited

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Balance at beginning of period		
As previously reported	<b>2,229,939</b>	2,769,551
Change in accounting policy with respect to deferred taxation (note 2)	<b>11,824</b>	10,195
As restated	<b>2,241,763</b>	2,779,746
Exchange differences arising on translation of accounts of overseas subsidiaries, jointly controlled entities and associated companies	<b>7,324</b>	205
Revaluation deficit on hotel properties	<b>(375)</b>	–
Net gains not recognised in the profit and loss account	<b>6,949</b>	205
Loss for the period attributable to shareholders	<b>(113,665)</b>	(58,549)
Balance at end of period	<b>2,135,047</b>	2,721,402

# Notes to the Interim Consolidated Accounts

## 1. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the requirements of the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" as issued by the Hong Kong Society of Accountants.

## 2. ACCOUNTING POLICIES

In 2003, the Group adopted and implemented the revised Statement of Standard Accounting Practice ("SSAP") No. 12 "Income Taxes" issued by the Hong Kong Society of Accountants.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

Opening revenue reserves at 1st April 2003 and 2002 have been increased by HK\$12,725,000 and HK\$11,023,000 respectively and the opening hotel properties revaluation reserves at 1st April 2003 and 2002 have been reduced by HK\$901,000 and HK\$828,000 respectively which represent the unprovided net deferred tax assets and liabilities respectively. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st March 2003 by HK\$48,383,000 and HK\$38,728,000 respectively. The loss for the six months ended 30th September 2002 has been increased by HK\$1,285,000.

Apart from the foregoing, the principal accounting policies adopted in preparing the unaudited interim financial report are consistent with those described in the 2003 Annual Report and Accounts.

### 3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in property development and investment, hotel, travel agency and management services operations. Turnover comprises gross revenues from property sales, property leasing, hotel and travel agency, management services, investment and interest income.

#### Primary reporting format – business segments

The Group is organised into four main business segments, comprising property sales, property leasing, hotel and travel and investments. There is no other significant identifiable separate business segment. Segment revenue from external customers is after elimination of inter-segment revenues. In accordance with the Group's internal financial reporting and operating activities, the primary reporting is by business segments and the secondary reporting is by geographical segments.

	Property sales	Property leasing	Hotel and travel	Investments	Other operations	Group
Six months ended 30th September 2003						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	85,715	27,168	180,983	949	16,236	311,051
Contribution to segment results	501	24,047	9,546	949	10,684	45,727
Provisions and other charges	(17,172)	–	(10,361)	(7,042)	(51,100)	(85,675)
Unallocated corporate expenses						(17,308)
Operating loss						(57,256)
Finance costs						(62,696)
Share of results of						
Jointly controlled entities	3,275	–	–	(11,334)	–	(8,059)
Associated companies	(29,265)	3,630	96	(25,908)	(25)	(51,472)
Loss before taxation						(179,483)
Taxation credit						3,894
Loss after taxation						(175,589)
Minority interests						61,924
Loss attributable to shareholders						(113,665)



**3. TURNOVER AND SEGMENT INFORMATION (Continued)****Primary reporting format – business segments (Continued)**

	Property sales	Property leasing	Hotel and travel	Investments	Other operations	Group
Six months ended 30th September 2002						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	341,236	33,164	246,082	24,893	16,979	662,354
Contribution to segment results	43,310	30,368	42,108	6,826	10,898	133,510
Provisions and other charges	(307)	–	(1,575)	(51,609)	(3,593)	(57,084)
Unallocated corporate expenses						(27,059)
Operating profit						49,367
Finance costs						(65,030)
Share of results of						
Jointly controlled entities	(12,155)	–	–	(5,532)	–	(17,687)
Associated companies	72	3,404	(379)	(11,837)	9	(8,731)
Loss before taxation						(42,081)
Taxation charge						(8,211)
Loss after taxation						(50,292)
Minority interests						(8,257)
Loss attributable to shareholders						(58,549)

**Secondary reporting format – geographical segments**

The activities of the Group are mainly based in Hong Kong. A summary of geographical segments is set out as follows:

	Segment revenue		Operating (loss)/profit	
	Six months ended 30th September		Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	<b>251,098</b>	612,125	<b>(71,613)</b>	32,457
Mainland China	<b>19,305</b>	9,428	<b>(997)</b>	(904)
Canada	<b>40,648</b>	40,801	<b>15,354</b>	17,814
	<b>311,051</b>	662,354	<b>(57,256)</b>	49,367

**4. PROVISIONS AND OTHER CHARGES**

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Provision for diminution in value of properties under development/held for sales	(17,172)	(307)
Net unrealised losses on other investments	(6,073)	(51,609)
Amortisation of goodwill	(3,232)	(1,575)
Provision for doubtful debts	(51,100)	(3,593)
Loss on disposal of interest in an associated company	(9,129)	–
Negative goodwill recognised	1,031	–
	<b>(85,675)</b>	<b>(57,084)</b>

**5. OPERATING (LOSS)/PROFIT**

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Operating (loss) / profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Net rental income (note (a))	23,165	29,652
Interest income	7,187	15,814
Dividends from listed investments	949	2,324
Net realised gains on other investments	–	4,502
<b>Charging</b>		
Staff costs, including Directors' emoluments (note (b))	44,294	49,485
Depreciation	2,804	5,663
Net unrealised losses on other investments	6,073	51,609

## Notes to the Interim Consolidated Accounts

### 5. OPERATING (LOSS)/PROFIT(Continued)

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
<b>(a) Net rental income</b>		
Gross rental income		
Investment properties	<b>17,531</b>	22,660
Properties held for sale	<b>9,637</b>	10,504
	<b>27,168</b>	33,164
Outgoings	<b>(4,003)</b>	(3,512)
	<b>23,165</b>	29,652
<b>(b) Staff costs</b>		
Wages and salaries	<b>44,279</b>	49,047
Retirement benefits costs	<b>1,223</b>	1,931
	<b>45,502</b>	50,978
Capitalised as properties under development	<b>(1,208)</b>	(1,493)
	<b>44,294</b>	49,485

### 6. FINANCE COSTS

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Interest expense		
Long term bank loans	<b>39,357</b>	47,206
Convertible bonds	<b>15,499</b>	15,499
Convertible notes	<b>2,569</b>	1,504
Loans from minority shareholders of subsidiaries	<b>1,544</b>	1,574
Short term bank loans and overdrafts	<b>9,386</b>	6,401
Other incidental borrowing costs	<b>3,337</b>	5,379
	<b>71,692</b>	77,563
Capitalised as cost of properties under development		
Interest expense	<b>(8,462)</b>	(12,200)
Other incidental borrowing costs	<b>(534)</b>	(333)
	<b>62,696</b>	65,030

**7. TAXATION CREDIT/(CHARGE)**

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Company and subsidiaries		
Hong Kong profits tax	–	(1,987)
Underprovision in prior years	<b>(388)</b>	(1,800)
Deferred taxation relating to the origination and reversal of temporary differences	<b>2,653</b>	(3,841)
Deferred taxation resulting from an increase in tax rate	<b>2,434</b>	–
	<b>4,699</b>	(7,628)
Associated companies		
Hong Kong profits tax	<b>(635)</b>	(545)
Deferred taxation relating to the origination and reversal of temporary differences	–	(38)
Deferred taxation resulting from an increase in tax rate	<b>(170)</b>	–
	<b>3,894</b>	(8,211)

**8. LOSS PER SHARE**

The calculation of loss per share is based on loss attributable to shareholders of HK\$113,665,000 (2002: HK\$58,549,000) and on the weighted average of 149,826,429 (2002: 149,826,429; as adjusted for consolidation of 50 shares into 1 share in November 2002) shares in issue during the period.

No diluted loss per share is presented as the exercise of subscription rights attached to the share options and the conversion of the convertible notes would not have a dilutive effect on the loss per share.

**9. GOODWILL**

	HK\$'000
<b>Cost</b>	
<b>At 31st March and 30th September 2003</b>	<b>44,647</b>
<b>Accumulated amortisation</b>	
At 31st March 2003	7,347
Charge for the period	3,232
<b>At 30th September 2003</b>	<b>10,579</b>
<b>Net book value</b>	
<b>At 30th September 2003</b>	<b>34,068</b>
At 31st March 2003	37,300

**10. DEBTORS AND PREPAYMENTS**

Debtors and prepayments include trade debtors, utility and other deposits, stakeholders' accounts, interest and other receivables, receivable of nil (31st March 2003: HK\$4,605,000) from a Director, Mr. Poon Jing and a housing loan of HK\$1,122,000 (31st March 2003: HK\$1,156,000) granted to a Director, Mr. Kwan Po Lam, Phileas, in March 1995. The loan is secured by a legal mortgage over the subject property, carries interest at 2% below prime rate (31st March 2003: 2% below prime rate) per annum and the principal is repayable by quarterly instalments of HK\$17,000 each. The maximum outstanding balance during the period was HK\$1,156,000 (31st March 2003: HK\$1,224,000).

Trade debtors amounted to HK\$49,208,000 (31st March 2003: HK\$33,260,000) of which 88% (31st March 2003: 81%) were aged under six months. The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

**11. CREDITORS AND ACCRUALS**

Creditors and accruals include trade creditors, rental and management fee deposits, interest and other payables, retentions payable of construction costs and various accruals. Trade creditors amounted to HK\$32,463,000 (31st March 2003: HK\$30,812,000), all of which (31st March 2003: 100%) were aged under six months.

**12. SHARE CAPITAL**

Shares of HK\$0.1 each

Authorised:

	Number of shares	HK\$'000
<b>At 31st March and 30th September 2003</b>	<b>750,000,000</b>	<b>75,000</b>

Issued and fully paid:

	Number of shares	HK\$'000
<b>At 31st March and 30th September 2003</b>	<b>149,826,429</b>	<b>14,983</b>

**13. RESERVES**

	Share premium HK\$'000	Capital reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Contributed surplus HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 31st March 2003						
As previously reported	1,391,348	485,917	76,873	1,002,675	(741,857)	2,214,956
Change in accounting policy with respect to deferred taxation (note 2)	–	–	(901)	–	12,725	11,824
As restated	1,391,348	485,917	75,972	1,002,675	(729,132)	2,226,780
Translation differences	–	–	297	–	7,027	7,324
Deficit on revaluation	–	–	(375)	–	–	(375)
Loss for the period	–	–	–	–	(113,665)	(113,665)
<b>At 30th September 2003</b>	<b>1,391,348</b>	<b>485,917</b>	<b>75,894</b>	<b>1,002,675</b>	<b>(835,770)</b>	<b>2,120,064</b>

### 14. CONVERTIBLE BONDS

On 7th January 2002, Asia Standard International Capital Limited (“ASICL”), a wholly owned subsidiary of Asia Standard International Group Limited (“Asia Standard”), issued HK\$290,000,000 convertible bonds to Westrata Investment Limited (“Westrata”). The bonds bear interest at 7% per annum payable semi-annually in arrears and are guaranteed by Asia Standard. In March 2003, the bonds had been transferred from Westrata to Grosvenor Limited (“Grosvenor”), an indirect subsidiary of Grosvenor Group Holdings Limited.

Grosvenor has the option to convert the bonds into fully paid shares of HK\$0.01 each of Asia Standard at a conversion price of HK\$0.45 per share, subject to adjustment, at any time between 7th January 2002 and 7th January 2007. ASICL may redeem all or part of the bonds at any time on or after 7th January 2002, subject to certain conditions, together with accrued interest. Unless previously converted or redeemed, the bonds will be redeemed on 7th January 2007 at a redemption price equal to 118.3% of the principal amount together with accrued interest.

Provision of HK\$18,378,000 (31st March 2003: HK\$13,057,000) for the premium payable has been made in the accounts so as to provide a constant periodic rate of charge to the profit and loss account over the term of the bonds.

### 15. CONVERTIBLE NOTES

On 16th January 2003, the Company issued HK\$60,000,000 convertible notes which bear interest at 5% per annum payable annually in arrears. Each holder of these notes has the option to convert the notes into fully paid shares of HK\$0.10 each of the Company at (a) HK\$1.10 per share from the date of issue of the convertible notes and (b) HK\$1.20 per share after the first anniversary of the date of issue of the convertible notes to the business date last preceding the second anniversary of the date of issue of the convertible notes. The Company shall repay the outstanding principal amount of the convertible notes together with accrued interest on the business date last preceding the second anniversary of the date of issue of the convertible notes. Save for repayment upon maturity, the convertible notes cannot be redeemed.

On 15th April 2003, Asia Standard Hotel Group Limited (“Asia Standard Hotel”), a listed subsidiary, completed a placing of convertible notes of the principal amount of HK\$46,000,000, which bears interest at Hong Kong prime rate per annum payable semi-annually in arrears. Each holder of the notes has the option to convert the notes into fully paid shares of HK\$0.02 each of Asia Standard Hotel at a conversion price of HK\$0.25 per share, subject to adjustment, at any time from the date of issue to the last business date preceding the maturity date of 18 months from the date of issue. Asia Standard Hotel shall redeem the outstanding principal amount of convertible notes not already converted or redeemed with accrued interest on the maturity date.

**16. LONG TERM LOANS**

	<b>30th September 2003 HK\$'000</b>	<b>31st March 2003 HK\$'000</b>
Bank loans, secured		
Repayable within one year	<b>227,919</b>	316,085
Repayable between one and two years	<b>408,987</b>	509,317
Repayable between two and five years	<b>787,749</b>	660,233
Repayable after five years	<b>1,016,995</b>	1,025,626
	<b>2,441,650</b>	2,511,261
Current portion included in current liabilities	<b>(227,919)</b>	(316,085)
	<b>2,213,731</b>	2,195,176

**17. CAPITAL COMMITMENTS**

	<b>30th September 2003 HK\$'000</b>	<b>31st March 2003 HK\$'000</b>
In respect of investment in jointly controlled entities and associated companies:		
Contracted but not provided for	<b>3,509</b>	19,207



**18. CONTINGENT LIABILITIES****(a) Guarantees**

	<b>30th September 2003 HK\$'000</b>	<b>31st March 2003 HK\$'000</b>
Guarantees for the banking and loan facilities of:		
Jointly controlled entities	<b>216,910</b>	211,027
Associated companies	<b>286,900</b>	269,080
Third parties	<b>1,836</b>	1,886
	<b>505,646</b>	481,993

- (b)** In May 2003, the Group received a writ in which the plaintiff, a purchaser of a property developed by the Group in 1997, sought to claim damages and rescission of the sale and purchase transaction on the alleged grounds that the said property consideration had been grossly overvalued. Management has engaged legal representatives to vigorously contest the proceeding. The proceeding is still in an early stage and in the opinion of the Directors, based on professional advice, it is unlikely that there will be any significant adverse effect to the overall financial position of the Group.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend (2002: nil).

## REVIEW OF OPERATIONS AND FUTURE PROSPECTS

### Results

Turnover for the period amounted to HK\$311 million, representing a decrease of 53% over last period's HK\$662 million. Loss attributable to shareholders was HK\$114 million, as compared with HK\$59 million of last corresponding period. Net assets decreased by HK\$107 million to HK\$2.14 billion, or HK\$14.25 per share.

### Property sales and leasing

The Group's shareholding in Asia Standard International Group Limited ("Asia Standard") stayed at 53.4% as at 30th September 2003. Affected by the SARS outbreak, Asia Standard recorded a loss attributable to shareholders of HK\$121 million during the six months period. Due to absence of new project launched for sale in this period, turnover on property sales dropped to HK\$86 million compared with HK\$341 million of last year. Concentration was mainly on clearance of stock.

However, property market has shown a strong recovery lately. New projects are also being launched for sale in the second half of the financial year. In early November, sale of the luxurious apartment 8 Shiu Fai Terrace was launched and was well received by the market. 80% have been sold bringing a total proceeds of over HK\$560 million. The occupation permit of luxurious development at Repulse Bay was issued at the end of September 2003. Internal furnishing was being carried out. Pre-sale consent was applied and sales campaign will be launched in early 2004.

Rental income for the two half-year period remained quite stable. The reported decrease was mainly due to an accounting adjustment relating to prior years' rent free period recorded in last corresponding period.

The Group has also been actively pursuing the lease modification and land premium negotiation of five development sites totaling approximately 1,000,000 sq.ft. gross floor area.



*8 Shiu Fai Terrace*

## REVIEW OF OPERATIONS AND FUTURE PROSPECTS (Continued)

### Hotel

Severely hit by the SARS outbreak during the first half of the interim period, the hotel subsidiary's contribution to turnover fell by 26% to HK\$181 million (2002: HK\$246 million).

Situation in second half of the interim period recovered when visitors to Hong Kong increased substantially upon the end of SARS outbreak and the permission of individual PRC travellers to travel to Hong Kong. Stringent cost control was exercised to maintain the competitiveness and profitability of our Group's hotels. The subsidiary suffered a loss of HK\$19 million as compared to last corresponding period's profit of HK\$9 million.

### Investments

The 32% owned associate, Q9 Technology Holdings Limited succeeded in reversing its loss trend since listed on the GEM board and recorded its first month operating profit in September 2003. Turnover for the first nine months of 2003 has doubled that of corresponding period in 2002. Steady progress have been made in securing orders from OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes. The company expects that OEM licensing revenue will continue to grow and become a significant portion of its turnover.

The business activities of the Group's medical and healthcare investee companies were dampened during this interim period with the outbreak of SARS. However, one of these companies have made important progress in penetrating the PRC market. We hope that this will contribute to our group in the next financial year.



*Products with Q9 Chinese Input System embedded*



*Petrochemical plants and energy saving device*

The Group invested in 20% interest in a company engaged in the development, manufacturing and marketing of a series of energy saving devices using patented supersonic technology. The patented system was registered in both the US and the PRC. The system enhance the supply of heat energy at much reduced costs. The technology has a very wide range of industrial application and the devices was applied with satisfactory results in petrochemical plants of Sinopec in the PRC. The devices were endorsed by the State Economic and Trade Committee and World Bank.

## REVIEW OF OPERATIONS AND FUTURE PROSPECTS (Continued)

### FINANCIAL REVIEW

At 30th September 2003, the Group's net asset value per share was HK\$14.25 compared with HK\$14.99 at 31st March 2003. Gearing ratio is 68% (March 2003: 64%) with a net debt of HK\$2,909 million and shareholders' funds plus minority interests of HK\$4,261 million. Interest cost reduced by 8% resulting from further interest rate drop compared with last corresponding period.

All the Group's borrowings are in Hong Kong dollars except for the mortgage loan of the Vancouver hotel which is denominated in Canadian dollars, the loan is served by the Canadian Dollars receipts of the hotel and accordingly there is no exchange risk exposure. Over 84% (March 2003: 82%) of the Group's borrowings were repayable after one year, with repayment schedules spreading over a long period of time to over 10 years.

As at 30th September 2003, properties with an aggregate net book value of HK\$5,896 million (March 2003: HK\$5,897 million) were pledged to secure banking facilities of the Group. The Group has also provided guarantees to banks and financial institution on credit facilities to jointly controlled entities, associated companies and third parties of HK\$506 million (March 2003: HK\$482 million).

### EMPLOYEES AND REMUNERATION POLICIES

As at 30th September 2003, the Group employed a total of 648 full time employees, with over 57% working for the hotel subsidiary group and 37% for building management services. Their remuneration package, which commensurate with their job nature and experience level, include basic salary, annual bonus, retirement and other benefits. There was no share option granted during the period.

### PROSPECTS

The SARS hit Hong Kong harshly during the interim period. After that the government has implemented various plans to promote the recovery of Hong Kong. CEPA was entered during the period which will bring edge to Hong Kong businessmen in entering the lucrative PRC market.

In addition, PRC central government relax the requirement in allowing individuals to travel to Hong Kong. The effect was immediately seen by our hotel sector. It also boost retail business which benefited to the sale and rental of our group's retail shops. Hong Kong is still experiencing a low interest rate environment which we expect will continue in the coming year. The economy is recovering as evidenced by the falling unemployment rates and the increasing momentum of the stock market in the past few months. The new investment immigration policy favour the property sector. All these build a favourable environment for the recovery and growth of the property market. As a result, we believe that the group will have a much better results in the second half of the financial year and the years ahead.

## PROFORMA COMBINED BALANCE SHEET OF AFFILIATED COMPANIES

The Group had amounts due from and loans to certain affiliated companies in a total sum of HK\$1,199 million (before Group's provisions) and guarantees given to banks for facilities utilised of HK\$504 million totalling HK\$1,703 million as at 30th September 2003 which exceeds 25% of the Group's net assets. A proforma combined balance sheet of certain affiliated companies with major financial assistance from the Group and the Group's attributable interest in these affiliated companies are presented below:

	<b>Proforma combined balance sheet HK\$'000</b>	<b>Group's attributable interest HK\$'000</b>
Fixed assets	20,576	5,418
Investment properties	788,000	260,040
Jointly controlled entities	84,593	42,297
Properties held for/under development for sale	2,072,661	990,390
Current assets	242,753	91,928
Current liabilities	(203,674)	(81,209)
Long term bank and other loans	(1,100,098)	(505,939)
Minority interests	10,058	4,951
Shareholders' advance	(2,402,501)	(1,199,340)
	<u>(487,632)</u>	<u>(391,464)</u>

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September 2003, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Hong Kong Securities and Futures Ordinance (the "SFO") which (a) are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)**

**(I) LONG POSITIONS IN SHARES**

**(a) The Company**

Director	Personal interest	Number of shares held			Total	Percentage of shares in issue (%)
		Corporate interest	Family interest			
Poon Jing	31,714,396	38,011,695	1,396,520	71,122,611	47.47	
Fung Siu To, Clement	969,400	–	–	969,400	0.65	

**(b) Subsidiaries**

Director	Subsidiary	Number of shares held			Total	Percentage of shares in issue (%)
		Personal interest	Corporate interest			
Poon Jing	Asia Standard	4,445,650	2,196,391,030	2,200,836,680*	53.56	
Poon Jing	Asia Standard Hotel	248,937	3,699,148,774	3,699,397,711*	73.22	
Poon Jing and Fung Siu To, Clement	Centop Investment Limited	–	20	20	20	
Fung Siu To, Clement	Mark Honour Limited	1	–	1	10	

\* By virtue of his controlling interest in the Company, Mr. Poon Jing is deemed to be interested in the shares of Asia Standard and Asia Standard Hotel held by the Company's subsidiaries.

In addition, by virtue of his interest in the Company, Mr. Poon Jing is deemed to be interested in the shares of all the Company's subsidiaries.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (II) LONG POSITIONS IN UNDERLYING SHARES

#### Interest in share options

##### (a) The Company

Options to subscribe for 300,000 shares of the Company were granted to each of Messrs. Fung Siu To, Clement, Lim Yin Cheng, Kwan Po Lam, Phileas and Lun Pui Kan, all being the Directors of the Company, on 14th February 2000. These options are exercisable from 14th March 2000 to 13th February 2010 at exercise price of HK\$17.33 per share. During the period, no option was granted, exercised, cancelled or lapsed. As at 1st April 2003 and 30th September 2003, each of Messrs. Fung Siu To, Clement, Lim Yin Cheng, Kwan Po Lam, Phileas and Lun Pui Kan had option to subscribe for 300,000 shares of the Company.

##### (b) Subsidiary – Asia Standard

Options to subscribe for 1,750,000 shares of Asia Standard were granted to Mr. Lun Pui Kan on 27th February 1995. The options are exercisable from 27th March 1995 to 27th March 2005 at exercise price of HK\$0.384 per share. No option was exercised, cancelled or lapsed during the period. As at 1st April 2003 and 30th September 2003, Mr. Lun Pui Kan held options to subscribe for 1,750,000 shares of Asia Standard.

##### (c) Associated company – Q9 Technology Holdings Limited

As at 30th September 2003, details of the share options granted to Directors under the share option schemes are as follows:

Name of Director	Exercise Period*	Outstanding as at 1st April 2003 and 30th September 2003	
		Pre-IPO Share Option Scheme	Share Option Scheme adopted on 7th May 2001
Lim Yin Cheng	See note 1	84,480,000	
Fung Siu To, Clement	See note 2	2,560,000	
Lun Pui Kan	See note 2	1,920,000	
	18th May 2001 to 17th May 2011		3,000,000
Kwan Po Lam, Phileas	18th May 2001 to 17th May 2011		1,000,000

*Note : Options under the Pre-IPO Share Option Scheme were granted on 5th May 2001 at exercise price of HK\$0.36 per share and options under the Share Option Scheme adopted on 7th May 2001 were granted on 18th May 2001 at exercise price of HK\$0.45 per share.*

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)**

**(II) LONG POSITIONS IN UNDERLYING SHARES (Continued)**

**(c) Associated company – Q9 Technology Holdings Limited (Continued)**

No option pursuant to the Pre-IPO Share Option Scheme and Share Option Scheme adopted on 7th May 2001 had been granted to the Directors and no option granted to Directors had been exercised, cancelled or lapsed during the period. The option may be exercised at any time within the option period provided that the options have been vest.

\* The exercise period is, unless otherwise stated in that column, from 5th May 2001, the date of grant of the options (subject to such options having vested, details of which are set out below), to 4th May 2011, ten years from the date of grant. The vesting dates of the options and the percentage of options vested or vesting on such dates are set out below.

Date of vesting of the options (that is, the date when the options become/became exercisable)	Percentage of options vested/vesting on such dates	
	(Note 1)	(Note 2)
a. 18th November 2001	10%	10%
b. 18th May 2002	10%	20%
c. 18th November 2002	10%	20%
d. 18th May 2003	20%	20%
e. 18th November 2003	20%	20%
f. 18th May 2004	20%	10%
g. 18th November 2004	10%	–

Save as disclosed above, as at 30th September 2003, none of the Directors or Chief Executives (including their spouse and children under 18 years of age) of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the SFO) which (a) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.



## SHARE OPTION SCHEMES

### Company

1. Share Option Scheme adopted on 28th August 1996 (“Old Option Scheme”)

The Old Option Scheme was adopted on 28th August 1996 whereby options may be granted to employees of the Company and its subsidiaries including the Executive Directors, to subscribe for shares of the Company. On 11th November 2002, the Old Option Scheme was resolved by the shareholders of the Company to be cancelled. However, the options granted under the Old Option Scheme are still exercisable in accordance with the terms of the Old Option Scheme.

2. Share Option Scheme adopted on 11th November 2002 (“New Option Scheme”)

Pursuant to an ordinary resolution passed at the Special General Meeting of the Company held on 11th November 2002, the Company adopted the New Option Scheme to replace the Old Option Scheme. According to the New Option Scheme, the board of Directors of the Company may grant options to any Director, employee, consultant, customer, supplier, agent, partner or advisers of or contractor to the Company, its subsidiary or any invested entity, their discretionary trust or the companies owned by them. There are no changes in any terms of the scheme during the six months ended 30th September 2003. The detail terms of the New Option Scheme were disclosed in the 2003 annual report.

No option has been granted under the New Option Scheme since its adoption.

The following table discloses details of the Company’s options granted under the Old Option Scheme held by employees (including Directors) and movement in such holdings during the period:

<b>Grantee</b>	<b>Outstanding as at 1st April 2003</b>	<b>Outstanding as at 30th September 2003</b>
Directors	1,200,000	1,200,000
Former Director of subsidiary	300,000	300,000
Employees	3,750,000	3,750,000

## SHARE OPTION SCHEMES (Continued)

### Company (Continued)

Notes:

1. No option was granted, cancelled, lapsed or exercised during the period.
2. All options are exercisable at exercise price of HK\$17.33 per share.
3. All options were granted on 14th February 2000 and exercisable from 14th March 2000 to 13th February 2010.
4. The option granted to the former Director of subsidiary will be lapsed if not exercise on or before 21st January 2004.

### Subsidiaries

1. Asia Standard

The share option scheme of Asia Standard expired on 22nd January 2002. As at 30th September 2003, there were 1,750,000 options granted to a Director outstanding. The options are exercisable in accordance with the terms of the expired share option scheme.

2. Asia Standard Hotel

The share option scheme was adopted on 24th May 2000 whereby options may be granted to the employees, including Executive Directors of Asia Standard Hotel and its subsidiaries, to subscribe for shares of Asia Standard Hotel. There are no changes in any terms of the scheme during the six months ended 30th September 2003. The detail terms of the scheme were disclosed in the 2003 annual report.

No option has been granted under the share option scheme.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30th September 2003, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

### (a) LONG POSITIONS IN SHARES OF THE COMPANY

Name	Number of shares held	Percentage
Poon Jing (notes 1 and 2)	71,122,611	47.47
Teddington Holdings Limited ("Teddington")	15,856,581	10.58
Heston Holdings Limited ("Heston")	13,209,717	8.82
Full Speed Investments Limited ("Full Speed")	8,945,397	5.97
Swarkin Assets Ltd. ("Swarkin") (note 3)	7,500,000	5.01
Lau Luen Hung, Thomas (note 4)	12,482,940	8.33
Cheung Chung Kiu (note 5)	3,926,746	2.62 (note 6)
Palin Holdings Limited (note 5)	3,926,746	2.62 (note 6)
Chongqing Industrial Limited (note 5)	3,926,746	2.62 (note 6)
Yugang International Limited (note 5)	3,926,746	2.62 (note 6)
Yugang International (BVI) Limited (note 5)	3,926,746	2.62 (note 6)

#### Notes:

1. Mr. Poon Jing, his family interest and the companies wholly-owned by him namely Teddington, Heston and Full Speed together hold 71,122,611 shares.
2. The interest of Mr. Poon Jing in the Company duplicate the interests of Teddington, Heston and Full Speed.
3. Swarkin is 50% controlled by Mr. Tjia Boen Sien and 50% controlled by Mr. Lau Luen Hung, Thomas.
4. Mr. Lau Luen Hung, Thomas has personal interest in 4,982,940 shares and has controlling interest of 50% in Swarkin. By virtue of the SFO, Mr. Lau is deemed to be interested in 7,500,000 shares held by Swarkin.
5. Mr. Cheung Chung Kiu is deemed to be interested in the shares of the Company by virtue of his indirect shareholding interest in Bookman Properties Limited which owns 3,926,746 shares in the Company. Bookman Properties Limited is a wholly-owned subsidiary of Yugang Enterprises Limited. Yugang Enterprises Limited is a wholly-owned subsidiary of Yugang International (BVI) Limited, which is, in turn, a wholly-owned subsidiary of Yugang International Limited. Chongqing Industrial Limited owns 37.79% of the issued share capital of Yugang International Limited. Chongqing Industrial Limited is controlled by a discretionary trust. Mr. Cheung Chung Kiu is the founder of the said discretionary trust and Palin Holdings Limited, which is controlled by Mr. Cheung Chung Kiu, is the trustee of the said discretionary trust.
6. The aggregated holding of shares together with the underlying shares of interest in the convertible notes disclosed herein below are more than 5% of the issued share capital of the Company.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

### (b) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY CONVERTIBLE NOTES

Substantial shareholder	Underlying shares interest of convertible notes at 30/9/2003
Cheung Chung Kiu (note 1)	31,818,181
Palin Holdings Limited (note 1)	31,818,181
Chongqing Industrial Limited (note 1)	31,818,181
Yugang International Limited (note 1)	31,818,181
Yugang International (BVI) Limited (note 1)	31,818,181
Regulator Holdings Limited (note 1)	31,818,181
Qualipak International Holdings Limited (note 1)	31,818,181
Qualipak Development Limited (note 1)	31,818,181
Worthwell Investments Limited (note 1)	31,818,181
The Cross-Harbour (Holdings) Limited (note 2)	13,636,363
Wingspan Limited (note 2)	13,636,363
Gold Faith Investments Limited	13,636,363

The convertible notes can be converted into shares of the Company at conversion price of HK\$1.10 per share for the period from 15th January 2003 to 14th January 2004 and HK\$1.20 for the period from 15th January 2004 to 14th January 2005.

During the period, no convertible note was converted.

Notes:

1. Mr. Cheung Chung Kiu is deemed to be interested in the underlying shares of the Company by virtue of his indirect shareholding interest in Worthwell Investments Limited which owns 31,818,181 underlying shares in the Company. Worthwell Investments Limited is a wholly-owned subsidiary of Qualipak Development Limited. Qualipak Development Limited is a wholly-owned subsidiary of Qualipak International Holdings Limited which is controlled (44.75%) by Regulator Holdings Limited. Regulator Holdings Limited is a wholly-owned subsidiary of Yugang International (BVI) Limited, which is, in turn, a wholly-owned subsidiary of Yugang International Limited. Chongqing Industrial Limited owns 37.79% of the issued share capital of Yugang International Limited. Chongqing Industrial Limited is controlled by a discretionary trust. Mr. Cheung Chung Kiu is the founder of the said discretionary trust and Palin Holdings Limited, which is controlled by Mr. Cheung Chung Kiu, is the trustee of the said discretionary trust.

## **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)**

### **(b) LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY (Continued) CONVERTIBLE NOTES (Continued)**

2. *The Cross-Harbour (Holdings) Limited has controlling interest (100%) in Gold Faith Investments Limited through a wholly-owned subsidiary Wingspan Limited. The Cross-Harbour (Holdings) Limited and Wingspan Limited are deemed to be interested in and duplicate the interest in the 13,636,363 underlying shares held by Gold Faith Investments Limited.*

Save as disclosed above, as at 30th September 2003, the Directors are not aware of any other persons who had interests or short position in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under Section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules at any time during the six months ended 30th September 2003.

## **AUDIT COMMITTEE**

The Audit Committee members are Mr. Chan Sze Hung and Mr. Cheung Kwok Wah, Ken. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

On behalf of the Board

**Fung Siu To, Clement**

*Chairman*

HONG KONG, 22nd December 2003