

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th September, 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

2. PRINCIPAL 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 the year ended 31st March, 2001, except the adoption of, for the first time, a number of new and revised SSAPs as described below:

Goodwill

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 have been recognised retrospectively. The effect of this prior period adjustment is to increase the accumulated losses as at 1st April, 2000 by HK\$249,768,000 and to increase the loss for the year ended 31st March, 2001 by HK\$60,478,000 (note 11). Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as further impairment losses are identified. Negative goodwill arising on acquisitions prior to 1st April, 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Paul Y. - ITC, one of the associates, has elected to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves, which differs from the transitional treatment applied by the Group. Accordingly, the financial statements of Paul Y. - ITC have been restated for consolidation under the Group’s accounting policy.

Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 “Segment Reporting”. Segment disclosures for the six months ended 30th September, 2000 have been amended so that they are presented on a consistent basis.

3. TURNOVER AND SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating results is as follows:

Business segments:

	Six months ended 30th September, 2001			
	Investment and finance <i>HK\$'000</i>	Sale of building materials and machinery <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External	20,423	3,112	–	23,535
Inter-segment	<u>699</u>	<u>–</u>	<u>(699)</u>	<u>–</u>
	<u>21,122</u>	<u>3,112</u>	<u>(699)</u>	<u>23,535</u>
Contribution to profit from operations	<u>16,398</u>	<u>148</u>	<u>–</u>	16,546
Unallocated corporate expenses				<u>(5,992)</u>
Profit from operations				<u>10,554</u>

	Six months ended 30th September, 2000			
	Investment and finance <i>HK\$'000</i>	Sale of building materials and machinery <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External	28,658	2,641	–	31,299
Inter-segment	<u>557</u>	<u>–</u>	<u>(557)</u>	<u>–</u>
	<u>29,215</u>	<u>2,641</u>	<u>(557)</u>	<u>31,299</u>
Contribution to profit from operations	<u>6,723</u>	<u>119</u>	<u>–</u>	6,842
Unallocated corporate expenses				<u>(1,655)</u>
Profit from operations				<u>5,187</u>

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated profit from operations of the Group are attributable to markets outside Hong Kong.

4. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the period. The charge for each of the six months ended 30th September, 2001 and 30th September, 2000 represents the Group's share of tax on the results of associates.

5. LOSS PER SHARE

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

	Six months ended 30th September,	
	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Loss for the period	(6,957)	(88,681)
Dividend for preference shares	(9,245)	(9,245)
Loss for the purposes of basic loss per share	(16,202)	(97,926)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of associates based on dilution of their earnings per share	(967)	(2,883)
Loss for the purposes of diluted loss per share	(17,169)	(100,809)
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic loss per share and diluted loss per share	584,485,364	525,960,774

6. MOVEMENTS IN INVESTMENT PROPERTIES

During the period, the Group disposed of an investment property at its carrying amount of approximately HK\$23 million to an independent third party.

7. INTERESTS IN ASSOCIATES/INVESTMENTS IN SECURITIES

During the period, there was a transfer from investments in securities to interests in associates after the Group increased its interest in Star East to approximately 21%.

8. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of trade receivables:

	30th September, 2001 HK\$'000 (unaudited)	31st March, 2001 HK\$'000 (audited)
Trade receivables		
0-30 days	1,500	943
31-60 days	587	199
61-90 days	51	151
Over 90 days	344	131
	2,482	1,424
Other receivables, prepayments and deposits	3,341	1,020
	5,823	2,444

The general credit term is 30 to 60 days.

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables:

	30th September, 2001 <i>HK\$'000</i> (unaudited)	31st March, 2001 <i>HK\$'000</i> (audited)
Trade payables		
0-30 days	12,310	13,450
31-60 days	76	21
61-90 days	191	–
Over 90 days	–	15
	<u>12,577</u>	<u>13,486</u>
Other payables and accrued charges	<u>11,562</u>	<u>23,447</u>
	<u>24,139</u>	<u>36,933</u>

10. SHARE CAPITAL

	Number of shares	Value <i>HK\$'000</i>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April, 2001	525,960,774	52,596
Issued during the period	<u>105,000,000</u>	<u>10,500</u>
At 30th September, 2001	<u>630,960,774</u>	<u>63,096</u>
Compulsorily convertible cumulative preference shares of HK\$0.10 each		
At 1st April, 2001 and 30th September, 2001	<u>267,980,000</u>	<u>26,798</u>

In June 2001, the Company issued 105,000,000 new ordinary shares of HK\$0.10 each at an issue price of HK\$0.60 per share to Galaxyway, a company in which Dr. Chan Kwok Keung, Charles, a director and a substantial shareholder of the Company has a beneficial interest.

11. RESERVES

	Share premium HK\$'000	Warrant reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
THE GROUP									
At 1st April, 2000									
– as originally stated	153,843	5,432	2,092,234	908	–	(51,322)	(783,522)	212,480	1,630,053
– prior period adjustment (note 2)	–	–	–	–	–	–	249,768	(249,768)	–
At 1st April, 2000 (as stated)	153,843	5,432	2,092,234	908	–	(51,322)	(533,754)	(37,288)	1,630,053
Exchange differences arising from translation of overseas operations	–	–	–	–	–	775	–	–	775
Reserve movements arising on acquisition of subsidiaries	–	–	–	–	–	–	698	–	698
Reserve movements arising on acquisition of associates	–	–	–	–	–	–	188,524	–	188,524
Released on disposal of subsidiaries	–	–	–	–	–	–	10	–	10
Released on disposal of associates	–	(5,367)	–	–	–	(129)	259,978	–	254,482
Reserve movements arising on reduction of interests in associates	–	(65)	–	–	–	467	14,010	–	14,412
Share of post-acquisition reserve movements of associates	–	–	–	–	–	(13,734)	(15,373)	–	(29,107)
Goodwill eliminated on cessation of business of an associate	–	–	–	–	–	–	14,596	–	14,596
Surplus on revaluation	–	–	–	–	450	–	–	–	450
Loss for the year – as originally stated	–	–	–	–	–	–	–	(542,370)	(542,370)
Prior period adjustment for impairment of goodwill (note 2)	–	–	–	–	–	–	60,478	(60,478)	–
At 31st March, 2001 (as stated)	153,843	–	2,092,234	908	450	(63,943)	(10,833)	(640,136)	1,532,523
Exchange differences arising from translation of overseas operations	–	–	–	–	–	30	–	–	30
Issue of ordinary shares	52,500	–	–	–	–	–	–	–	52,500
Shares issue expenses	(1,115)	–	–	–	–	–	–	–	(1,115)
Reserve movements arising on reduction of interests in associates	–	–	–	–	–	17	880	–	897
Released on disposal of an investment property	–	–	–	–	(450)	–	–	–	(450)
Share of post-acquisition reserve movements of associates	–	–	–	–	–	(4,121)	–	–	(4,121)
Loss for the period	–	–	–	–	–	–	–	(6,957)	(6,957)
At 30th September, 2001	205,228	–	2,092,234	908	–	(68,017)	(9,953)	(647,093)	1,573,307

12. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's land and buildings with an aggregate carrying value of approximately HK\$17,736,000 (31st March, 2001: HK\$244,447,000) were pledged to banks and other financial institutions to secure general credit facilities granted to the Group.

13. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the period or at the balance sheet date, the Group had transactions/balances with the following related parties, details of which are as follows:

	Six months ended	
	30th September,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Transactions		
Associates:		
Sales (<i>note a</i>)	463	210
Dividend income	2,629	6,088
Rental income received (<i>note b</i>)	–	2,328
Interest income received (<i>note c</i>)	<u>14,395</u>	<u>19,853</u>
Directors or companies controlled by directors:		
Interest paid (<i>note d</i>)	173	–
Interest payable on convertible notes issued by the Group (<i>note e</i>)	<u>8,760</u>	<u>11,701</u>
	30th September,	31st March,
	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Balances		
Balances due to associates (<i>note f</i>)	29	6,798
Balances due from associates (<i>note g</i>)	26,650	42,391
Convertible note receivable from an associate (<i>note h</i>)	<u>385,900</u>	<u>385,900</u>

In addition to the above, as at 31st March, 2001 and 30th September, 2001, convertible notes totalling HK\$250,000,000 were payable to Galaxyway.

Notes:

- (a) Sales were carried out by reference to the prevailing market price for comparable transactions.
- (b) Rentals were charged with reference to the market price.
- (c) Interest was charged at a range from prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited ("Prime rate") less 2.75% to 2% over Prime rate.
- (d) Interest was payable based on 1% over Prime rate.
- (e) Interest was payable based on Prime rate.
- (f) The amounts stated as at 30th September, 2001 were interest-free, unsecured and repayable on demand. The amounts stated as at 31st March, 2001 were repayable on demand and approximately HK\$6,780,000 out of the balance bore interest at 3% over Prime rate and was secured by certain listed investments of the Group.
- (g) The amounts were unsecured and repayable on demand. Approximately HK\$9,600,000 (31st March, 2001: HK\$31,223,000) out of the balance bore interest at 2% over Prime rate (31st March, 2001: at a range from Prime rate less 2.75% to 2% over Prime rate). The remaining balance was interest-free.
- (h) The convertible note was unsecured and bore interest at Prime rate.