

WINFAIR INVESTMENT COMPANY LIMITED

Notes to Financial Statements

For The Year Ended 31 March 2001

1. PRINCIPAL ACTIVITIES

The principal activities of the company are investment holding, securities dealing and property investment and development. The principal activities of the subsidiaries are set out in note 12 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost convention, as modified for revaluation of investment properties and trading and other securities, and in accordance with accounting principles generally accepted in Hong Kong.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the company and all subsidiaries made up to 31 March. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective date of acquisition or disposal respectively.

All significant intra-group transactions and balances have been eliminated on consolidation.

(b) Subsidiaries

A subsidiary is a company in which the company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors. Investments in subsidiaries are carried at cost less provision for diminution in value where appropriate.

(c) Property, plant and equipment

(i) Investment properties

Investment properties are defined as properties which are income producing and are intended to be held on long term for their investment potential. Such properties are included in the balance sheet at their open market values, on the basis of annual professional valuation. Changes in the values of the investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of revalued investment properties, revaluation surplus is released to the income statement by recognising gains or losses on disposal of investment properties based on historical cost.

WINFAIR INVESTMENT COMPANY LIMITED

Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Property, plant and equipment (Cont'd)

(ii) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation. The gain or loss on disposal or retirement of other property, plant and equipment recognised in the income statement is the difference between the sales proceeds and the carrying amount of the relevant asset.

(d) Depreciation

(i) Investment properties

Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less.

(ii) Other property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives at the following annual rates and methods:—

Long term leasehold properties, other than investment properties and properties held for or under development	2.5% straight line basis
Leasehold improvement	10% reducing balance method
Furniture, fixtures and equipment	10% reducing balance method

(e) Properties held for or under development

Properties held for or under development are stated at cost less provision for diminution in value where appropriate. Cost comprises land cost, development costs and other direct costs incurred during the development period.

(f) Share investments

Share investments, other than the investments in subsidiaries, held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less provision for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement. Such provisions are determined for each investment individually.

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Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Share investments (Cont'd)

Other share investments are classified as either trading securities or other securities and stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement.

Profits or losses on disposal of share investments are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(g) Stock of land interests

Stock of land interests is stated at the lower of cost and market value.

(h) Deferred taxation

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, other than those which are not expected to crystallize in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

(i) Revenue recognition

Securities trading is accounted for on the trade date.

Rental income from properties under operating leases is recognised on a straight line basis over the lease terms.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividend income from subsidiaries is recognised in the period to which the dividend relates.

Interest income on bank deposits is recognised on a time proportion basis.

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Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

3. TURNOVER

Turnover comprises sales of trading securities, rental and dividend income as follows:

	The Group	
	2001 HK\$	2000 HK\$
Sales of trading securities	—	569,810
Gross rental income from investment properties	8,226,410	8,256,601
Dividend income from listed investments	2,149,677	635,789
	<u>10,376,087</u>	<u>9,462,200</u>

4. (LOSS)/PROFIT BEFORE TAXATION

	The Group	
	2001 HK\$	2000 HK\$
This is stated after crediting and charging the following:—		
Crediting:		
Dividend income from investments listed in Hong Kong	2,149,677	635,789
Interest income on bank deposits	2,396,257	4,876,689
Profit on disposal of trading securities	—	71,826
Rental income less outgoings	7,893,213	7,726,007
Charging:		
Auditors' remuneration	124,000	124,000
Depreciation	131,534	133,825
Staff costs (including directors' remuneration)	3,842,352	2,494,256

WINFAIR INVESTMENT COMPANY LIMITED

Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

5. DIRECTORS' REMUNERATION

	The Group	
	2001	2000
	HK\$	HK\$
The remuneration of the directors is as follows:—		
Directors' fees —		
Executive directors	36,000	36,000
Non-executive directors	24,000	24,000
Independent non-executive directors	120,000	120,000
Other emoluments for executive directors —		
Salaries and other benefits	1,861,256	1,839,408
Long service payments for two executive directors (provision)	1,320,000	—
	<u>3,361,256</u>	<u>2,019,408</u>

Analysis of directors' remuneration by number of directors and emolument band is as follows:

	2001	2000
Executive directors		
HK\$ Nil - HK\$1,000,000	1	3
HK\$1,000,001 - HK\$1,500,000	2	—
Non-executive and independent non-executive directors		
HK\$ Nil - HK\$1,000,000	4	4
	<u>7</u>	<u>7</u>

6. EMPLOYEES' EMOLUMENTS

Among the five highest paid individuals of the group, three (2000: three) are executive directors whose emoluments are set out in note 5 to the financial statements. The emoluments of the other two (2000: two) are as follows:—

	The Group	
	2001	2000
	HK\$	HK\$
Salaries and other benefits	<u>481,096</u>	<u>474,848</u>

The aggregate emoluments of each employee are within the emolument band ranging from HK\$ Nil to HK\$1,000,000.

WINFAIR INVESTMENT COMPANY LIMITED

Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

7. TAXATION

	The Group	
	2001	2000
	HK\$	HK\$
Taxation in the consolidated income statement represents:—		
Provision for Hong Kong profits tax for the year	(958,000)	(1,007,000)
Over-provision in respect of previous years	643	3,777,444
Deferred taxation (note 14)	<u>—</u>	<u>253,733</u>
	<u>(957,357)</u>	<u>3,024,177</u>

Provision for Hong Kong profits tax is made at 16% (2000: 16%) on the estimated assessable profit for the year.

8. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the consolidated loss after tax of HK\$6,714,265 (2000: profit of HK\$10,057,307) and on 40,000,000 shares (2000: 40,000,000 shares) in issue during the year.

WINFAIR INVESTMENT COMPANY LIMITED

Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

9. PROPERTY, PLANT AND EQUIPMENT

The Group	Investment properties HK\$	Other properties HK\$	Leasehold improvement HK\$	Furniture, fixtures and equipment HK\$	Total HK\$
Cost or Valuation					
At 1 April 2000	80,480,000	3,758,960	570,900	176,921	84,986,781
Additions	7,865,910	—	—	19,606	7,885,516
Disposal	—	—	—	(3,650)	(3,650)
Deficit on revaluation	(8,395,910)	—	—	—	(8,395,910)
At 31 March 2001	<u>79,950,000</u>	<u>3,758,960</u>	<u>570,900</u>	<u>192,877</u>	<u>84,472,737</u>
Aggregate Depreciation					
At 1 April 2000	—	751,792	280,786	108,379	1,140,957
Charge for the year	—	93,974	29,011	8,549	131,534
Eliminated on disposal	—	—	—	(989)	(989)
At 31 March 2001	—	<u>(845,766)</u>	<u>(309,797)</u>	<u>(115,939)</u>	<u>(1,271,502)</u>
Net Book Value					
At 31 March 2001	<u>79,950,000</u>	<u>2,913,194</u>	<u>261,103</u>	<u>76,938</u>	<u>83,201,235</u>
At 31 March 2000	<u>80,480,000</u>	<u>3,007,168</u>	<u>290,114</u>	<u>68,542</u>	<u>83,845,824</u>

The Company	Investment properties HK\$	Furniture, fixtures and equipment HK\$	Total HK\$
Cost or Valuation			
At 1 April 2000	3,400,000	36,240	3,436,240
Additions	—	19,606	19,606
Disposal	—	(3,650)	(3,650)
Deficit on revaluation	(400,000)	—	(400,000)
At 31 March 2001	<u>3,000,000</u>	<u>52,196</u>	<u>3,052,196</u>
Aggregate Depreciation			
At 1 April 2000	—	10,273	10,273
Charge for the year	—	4,291	4,291
Eliminated on disposal	—	(989)	(989)
At 31 March 2001	—	<u>(13,575)</u>	<u>(13,575)</u>
Net Book Value			
At 31 March 2001	<u>3,000,000</u>	<u>38,621</u>	<u>3,038,621</u>
At 31 March 2000	<u>3,400,000</u>	<u>25,967</u>	<u>3,425,967</u>

WINFAIR INVESTMENT COMPANY LIMITED

Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

9. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

All the properties are situated in Hong Kong and are held under following lease terms:—

	2001	2000
	HK\$	HK\$
The Group		
Investment properties —		
Medium term	70,310,000	70,400,000
Long term	9,640,000	10,080,000
	<u>79,950,000</u>	<u>80,480,000</u>
Other properties —		
Medium term	<u>2,913,194</u>	<u>3,007,168</u>
The Company		
Investment properties —		
Medium term	<u>3,000,000</u>	<u>3,400,000</u>

The group's investment properties were revalued on 31 March 2001 by RHL Appraisal Limited, an independent firm of professional surveyors, on an open market value basis.

10. PROPERTIES HELD FOR OR UNDER DEVELOPMENT

	The Group	
	2001	2000
	HK\$	HK\$
Balance at the beginning of the year	70,856,291	74,919,744
Additions	—	474,720
Resumed by the government	—	(4,538,173)
	<u>70,856,291</u>	<u>70,856,291</u>
Balance at the end of the year	70,856,291	70,856,291
Provision for diminution in value	(35,000,000)	(25,200,000)
	<u>35,856,291</u>	<u>45,656,291</u>

The properties held for or under development are situated in Hong Kong and are under medium term lease.

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Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

11. INVESTMENT SECURITIES

	The Group	
	2001	2000
	HK\$	HK\$
Equity shares listed in Hong Kong, at cost	61,015,548	61,514,621
Provision for diminution in value	(11,570,000)	(6,000,000)
	<u>49,445,548</u>	<u>55,514,621</u>
Market value	<u>48,726,775</u>	<u>66,424,838</u>

12. INTEREST IN SUBSIDIARIES

	The Company	
	2001	2000
	HK\$	HK\$
Unlisted investments at cost	6,481,102	6,481,102
Advances to subsidiaries	165,299,141	163,812,193
	171,780,243	170,293,295
Advances from subsidiaries	(21,003,079)	(18,765,978)
	150,777,164	151,527,317
Provision for loss	(62,297,790)	(49,372,936)
	<u>88,479,374</u>	<u>102,154,381</u>

Particulars of the subsidiaries at 31 March 2001 were as follows:—

Name	Place of Incorporation/ Operation	Principal Activity	Percentage of Holding Held Directly	Issued Share Capital HK\$
Hing Full Far East Development Ltd.	Hong Kong	Dormant	100%	10,000
Hing Lung Properties Limited	Hong Kong	Property development	100%	10,000
Hing Shing Far East Development Ltd	Hong Kong	Share investment	100%	10,000

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Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

12. INTEREST IN SUBSIDIARIES (Cont'd)

Name	Place of Incorporation/ Operation	Principal Activity	Percentage of Holding Held Directly	Issued Share Capital HK\$
Konchoy Limited	Hong Kong	Property investment	100%	2
Wang Fung Far East Development Ltd.	Hong Kong	Dormant	100%	10,000
Winful Far East Limited	Hong Kong	Property investment	100%	100
Yick Fu Investment Co. Ltd.	Hong Kong	Property investment	100%	1,800,000
YLH Limited	Hong Kong	Dormant	100%	10,000

Advances among group companies are unsecured, interest free and repayable on demand.

13. DEBTORS, DEPOSITS AND PREPAYMENTS

Included therein are rental receivables of the group of HK\$254,093 (2000: HK\$521,491) and of the company of HK\$Nil (2000: HK\$5,032) which were current and within normal credit period.

14. DEFERRED TAXATION

	The Group	
	2001 HK\$	2000 HK\$
Balance at the beginning of the year	—	253,733
Transfer to income statement for the year (note 7)	—	(253,733)
Balance at the end of the year	<u>—</u>	<u>—</u>

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Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

14. DEFERRED TAXATION (Cont'd)

The group and the company have not accounted for deferred tax benefit in the financial statements as it is uncertain whether such benefit will crystallise in the foreseeable future. At the balance sheet date, the potential tax benefit of timing differences was as follows:

	The Group		The Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Accelerated depreciation allowances	(257,000)	(138,000)	(5,000)	(3,000)
Tax losses	973,000	586,000	885,000	528,000
Unrealised holding (gains)/losses on trading securities	(332,000)	20,000	(332,000)	20,000
Provisions	212,000	—	106,000	—
	<u>596,000</u>	<u>468,000</u>	<u>654,000</u>	<u>545,000</u>

The surplus arising on revaluation of the group's investment properties does not constitute a timing difference for deferred tax purpose as realisation of such surplus does not give rise to any deferred tax liability.

15. SHARE CAPITAL

	2001		2000	
	No. of shares	Amount HK\$	No. of shares	Amount HK\$
Authorised:				
Ordinary shares of HK\$1 each	<u>60,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$1 each	<u>40,000,000</u>	<u>40,000,000</u>	<u>40,000,000</u>	<u>40,000,000</u>

WINFAIR INVESTMENT COMPANY LIMITED

Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

16. RESERVES

The Group	Capital Reserve HK\$	Investment Property Revaluation Reserve HK\$	Retained Profits HK\$	Total HK\$
At 1 April 1999	251,046	51,281,569	135,536,704	187,069,319
Deficit on revaluation of investment properties	—	(1,450,000)	—	(1,450,000)
Revaluation surplus released on disposal	—	(1,506,261)	—	(1,506,261)
Profit for the year	—	—	10,057,307	10,057,307
Dividends (note 17)	—	—	(5,800,000)	(5,800,000)
At 31 March 2000	<u>251,046</u>	<u>48,325,308</u>	<u>139,794,011</u>	<u>188,370,365</u>
At 1 April 2000	251,046	48,325,308	139,794,011	188,370,365
Deficit on revaluation of investment properties	—	(8,395,910)	—	(8,395,910)
Loss for the year	—	—	(6,714,265)	(6,714,265)
Dividends (note 17)	—	—	(4,000,000)	(4,000,000)
At 31 March 2001	<u>251,046</u>	<u>39,929,398</u>	<u>129,079,746</u>	<u>169,260,190</u>
The Company				
At 1 April 1999	—	1,185,848	107,875,392	109,061,240
Surplus on revaluation of investment properties	—	400,000	—	400,000
Profit for the year (note 18)	—	—	3,564,098	3,564,098
Dividends (note 17)	—	—	(5,800,000)	(5,800,000)
At 31 March 2000	<u>—</u>	<u>1,585,848</u>	<u>105,639,490</u>	<u>107,225,338</u>
At 1 April 2000	—	1,585,848	105,639,490	107,225,338
Deficit on revaluation of investment properties	—	(400,000)	—	(400,000)
Loss for the year (note 18)	—	—	(12,724,282)	(12,724,282)
Dividends (note 17)	—	—	(4,000,000)	(4,000,000)
At 31 March 2001	<u>—</u>	<u>1,185,848</u>	<u>88,915,208</u>	<u>90,101,056</u>

Distributable reserves of the company at the balance sheet date, calculated under Section 79B of the Companies Ordinance, amounted to HK\$88,915,208 (2000: HK\$105,639,490).

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Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

17. DIVIDENDS

	2001	2000
	HK\$	HK\$
Interim dividend at HK\$0.02 (2000: HK\$0.025) per share	800,000	1,000,000
Proposed final dividend at HK\$0.08 (2000: HK\$0.12) per share	3,200,000	4,800,000
	<u>4,000,000</u>	<u>5,800,000</u>

18. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

	The Company	
	2001	2000
	HK\$	HK\$
(Loss)/profit attributable to the shareholders and dealt with in the financial statements of the company (note 16)	<u>(12,724,282)</u>	<u>3,564,098</u>

19. CAPITAL COMMITMENTS

	The Group	
	2001	2000
	HK\$	HK\$
Capital expenditures in respect of properties under development outstanding at the balance sheet date were as follows:		
Contracted but not provided for	2,900,000	2,900,000
Authorised but not contracted for	15,000,000	15,000,000
	<u>17,900,000</u>	<u>17,900,000</u>

The company had no significant capital commitments at the balance sheet date.

WINFAIR INVESTMENT COMPANY LIMITED

Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

20. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	The Group	
	2001	2000
	HK\$	HK\$
(Loss)/profit before taxation	(5,756,908)	7,033,130
Gain on disposal of investment properties	—	(1,993,741)
Provision for diminution in value of investment securities	5,570,000	2,091,586
Gain on disposal of investment securities	(3,326,818)	(867,771)
Provision for diminution in value of properties held for or under development	9,800,000	600,000
Net unrealised holding losses on trading and other securities	1,730,480	2,381,960
(Gain)/loss on land resumption by government	(481,035)	650,907
Interest income	(2,396,257)	(4,876,689)
Depreciation	131,534	133,825
Loss on disposal of property, plant and equipment	2,661	—
Provision for long services payments	1,320,000	—
Increase in trading and other securities	(2,220,964)	(7,227,466)
Increase of stock of land interests	(20,000)	—
Decrease/(increase) of debtors, deposits and prepayments	1,250,691	(804,388)
(Decrease)/increase in creditors and accruals	(3,863,962)	3,750,253
(Decrease)/increase in deposits received	(201,397)	151,200
(Decrease)/increase in income received in advance	(5,032)	29,058
Net cash inflow from operating activities	<u>1,532,993</u>	<u>1,051,864</u>

21. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR

	The Group	
	2001	2000
	HK\$	HK\$
Cash and cash equivalents at the end of the year were analysed as follows:—		
Cash at banks	<u>34,920,946</u>	<u>45,781,531</u>

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Notes to Financial Statements (Cont'd)

For The Year Ended 31 March 2001

22. COMPARATIVE FIGURES

In the previous year, other securities held for capital gain purpose were classified as share investments under current assets and they are now reclassified as non-current assets in the current year's consolidated balance sheet as well as interest income on bank deposits was included in turnover in the previous year and is now included under other revenue in the consolidated income statement to better present the group's operations and financial position. Comparative figures have been reclassified to conform to current year's presentation.