

## EMPLOYEES

The Group including SRI Group had approximately 320 employees in Hong Kong, elsewhere in China and Australia as at 30th September, 2001. The Group ensures that pay scales of its employees are rewarded on a performance related basis within the general framework of the Group's remuneration strategy. The Company has also adopted a Share Option Scheme for Employees on 30th September, 1999, details of which were given in the last Annual Report of the Company.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Accounting policies

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, land and buildings and certain 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 for the following.

In the current period, the Group had adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. The SSAP that has an impact on the condensed consolidated financial statements is the new SSAP 30 "Business combinations".

Pursuant to the transitional provisions set out in SSAP 30, the Group has elected not to restate goodwill or negative goodwill previously eliminated against or credited, respectively, to reserves. Accordingly, 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 at such time as impairment losses are identified. Negative goodwill arising on acquisition prior to 1st April, 2001 continues to be held in reserves and will be credited to the income statement 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 acquisition after 1st April, 2001 is presented as a deduction from assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted.

## 2. **Basis of preparation of interim financial report and summary of the Independent Accountants' review**

### **Summary of basis of preparation**

In preparing the interim financial report, the Directors have given careful consideration to the future liquidity of the Group in the light of the Group's net liabilities of approximately HK\$373 million as at 30th September, 2001.

In respect of an agreement (the "Agreement") entered into between the Company and China Merchants Bank ("CMB") and with certain third parties (the "Third Parties") in December 1998, background has been detailed in the Company's annual report for the year ended 31st March, 2001 and there was no material progress for the six months ended 30th September, 2001. The Group has withheld payments of principal and interest in the sum of approximately HK\$432 million up to 30th September, 2001.

In March 2001, a writ of summons was issued by Peregrine Brokerage Limited ("Peregrine") against a subsidiary of the Company, demanding immediate repayment of the sum of approximately HK\$109 million and interest thereon, being the amount due and payable under margin facilities granted to the subsidiary without any corporate guarantee from the Group. The Company is currently discussing with its legal advisers to the appropriate course of action to be taken.

All the Group's principal borrowings, including those with CMB and Peregrine referred to above, have become due for repayment.

Against this background, the Directors are in the process of exploring with the Group's bankers and other lenders (together the "Financial Institutions") ways to restructure the Group's borrowings. Provided that the Financial Institutions, including CMB and Peregrine, continue to support the Group, and provided that there are no significant cash outflows arising from the proceedings in the litigation with CMB, the Directors consider that the Group will have sufficient financial resources to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the interim financial report has been prepared on a going concern basis.

### **The Independent Accountants' review report**

The Independent Accountants have reviewed the unaudited interim financial statements for the six months ended 30th September, 2001 which does not constitute an audit. The Independent Accountants were not able to reach a review conclusion as to whether material modifications that should be made to the interim

financial report for the six months ended 30th September, 2001 because of the possible effect of the limitation in evidence available to them as set out below and the significant fundamental uncertainties relating to the litigation and to the going concern basis listed in the undernoted paragraphs.

- (a) The scope of their review was limited as the Independent Accountants of Seapower Resources International Limited (“SRI”, an associate of the Company) state in their review report on SRI’s interim financial report dated 20th December, 2001 for the six months ended 30th September, 2001 that they were unable to reach a review conclusion because of the significance of the possible effect of the limitations in the scope of their review regarding the valuation of the properties held for development of approximately HK\$60 million and the valuation of the three cold storage warehouses of approximately HK\$1,106 million as at 30th September, 2001 and because of the significant fundamental uncertainties relating to the going concern.

Accordingly, the Independent Accountants were unable to satisfy themselves as to whether the Group’s share of net assets of SRI of approximately HK\$68 million as at 30th September, 2001 and the Group’s share of losses of SRI of approximately HK\$33 million for the six months ended 30th September, 2001 are fairly stated in the condensed consolidated financial statements of the Group for the six months ended 30th September, 2001.

Any adjustments to the above figures as at 30th September, 2001 would affect the net assets of the Group as at 30th September, 2001 and the results of the Group for the six months ended 30th September, 2001.

- (b) The Group is currently engaged in litigation with a bank (the “Bank”) and a financial creditor (the “Financial Creditor”). Further, all of the Group’s principal borrowings, including those from the Bank and the Financial Creditor, have become due for repayment. Against this background, the Directors are in the process of exploring with the Group’s bankers and other lenders (together the “Financial Institutions”) ways to restructure the Group’s borrowings. Provided that the Financial Institutions, including the Bank and the Financial Creditor, continue to support the Group, and provided that there are no significant cash outflows arising from the proceedings in the litigation with the Bank, the Directors consider that the Group will have sufficient financial resources to meet in full its financial obligations as they fall due for the foreseeable future.

The interim financial report has been prepared on a going concern basis, the validity of which depends upon sufficient future funding being available. The interim financial report does not include any adjustments that may result from the failure to obtain such funding. The Independent Accountants considered that appropriate disclosures have been made. However, in view of the extent of the uncertainties relating to the future support of the Financial Institutions for the Group and the litigation with the Bank and the Financial Creditor, the Independent Accountants were unable to reach a review conclusion in respect of the fundamental uncertainties relating to litigation and to the going concern basis.

### 3. Business and geographical segment information

All of the Group's turnover and contribution to results from operations are attributable to the hiring of motor vehicles in Hong Kong.

### 4. Depreciation and amortisation

During the period, depreciation and amortisation of approximately HK\$790,000 (for the six months ended 30th September, 2000: HK\$1,500,000) was charged in respect of the Group's property, plant and equipment.

### 5. Other operating expenses

	For the six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
Other operating expenses comprise:		
Loss on disposal of investments properties	2,000	–
Realized and unrealized holding losses on other investments	–	81,420
	<u>2,000</u>	<u>81,420</u>

## 6. Taxation credit

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and its subsidiaries did not have any assessable profits during either period.

The credit for the period ended 30th September, 2000 represented the Group's share of taxation on results of an associate during that period.

No provision for deferred taxation has been made in the condensed consolidated financial statements as the Company and its subsidiaries did not have any significant timing differences during either period.

## 7. Dividend

No dividend was paid during either period.

## 8. Loss per share

The calculation of the basic loss per share is based on the loss for the period of approximately HK\$109,190,000 (for the six months ended 30th September, 2000: HK\$133,924,000) and on 508,339,764 shares in issue during the period.

The computation of the diluted loss per share for both periods does not assume the conversion of the outstanding share options of the Company and the effect of the share options in SRI as they would reduce the loss reported for both periods.

## 9. Investment Properties

During the period, the Group disposed of investment properties with a carrying amount of approximately HK\$18.7 million for a total consideration of approximately HK\$16.7 million, resulting in a loss of approximately HK\$2 million. There had no disposal of investment properties in the six months ended 30th September, 2000.

## 10. Property, plant and equipment

During the period, the Group spent approximately HK\$913,000 (for the six months ended 30th September 2000: HK\$700,000) on property, plant and equipment.

In addition, the Group disposed of property, plant and equipment with a carrying amount of approximately HK\$7.9 million for a total consideration of approximately HK\$7.2 million, resulting in a loss of approximately HK\$750,000. There had no disposal of property, plant and equipment in the six months ended 30th September, 2000.

## 11. Investments in associates

The amounts as at 30th September, 2001 and 31st March, 2001 mainly represent the Group's investment in SRI, in which the Group has about 28% interest (31.3.2001: 36%). The Independent Accountants of SRI state in their report on SRI's interim financial report dated 20th December, 2001 for the six months ended 30th September, 2001 that they were unable to reach a review conclusion because of the significance of the possible effect of the limitations in the scope of their review regarding the valuation of the properties held for development of approximately HK\$60 million and the valuation of the three cold storage warehouses of approximately HK\$1,106 million as at 30th September, 2001 and because of the significant fundamental uncertainties relating to going concern.

## 12. Trade and other receivables

The Group allows an average credit period of 30 days to its trade customers.

Details of the ageing analysis of trade and other receivables (net of provision for bad and doubtful debts) are as follows:

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Trade receivables		
0-30 days	120	309
31-60 days	32	172
More than 60 days	108	153
	<hr/>	<hr/>
	260	634
Other receivables	1,517	1,579
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	<b>1,777</b>	<b>2,213</b>

### 13. Trade and other payables

Details of the ageing analysis of trade and other payables are as follows:

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Trade payables		
0-30 days	52	27
31-60 days	61	25
More than 60 days	2	2
	<hr/>	<hr/>
	115	54
Other payables	88,577	63,224
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	<b>88,692</b>	<b>63,278</b>
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### 14. Share capital

There were no movements in the share capital of the Company for either period.

Pursuant to a special resolution at a special general meeting of the Company held on 11th December, 2001, the shareholders of the Company approved the following:

- (a) The issued share capital of the Company was reduced from an amount of HK\$50,833,976 to HK\$5,083,398 by cancelling paid up capital of the Company to the extent of HK\$0.09 on each of the ordinary share in issue so that each issued ordinary share of HK\$0.10 in the capital of the Company was treated as one fully paid up ordinary share of HK\$0.01 in the capital of the Company (the "Capital Reduction");
- (b) The credit arising from the Capital Reduction was applied towards the reduction of the same amount of the deficit of the Company as at 31st March, 2001;
- (c) The balance of the deficit of the Company as at 31st March, 2001 not cancelled pursuant to paragraph (b) above was reduced by cancellation of the balance standing to the credit of the share premium account of the Company as at 31st March, 2001;

- (d) All of the authorised but unissued shares of HK\$0.10 each in the capital of the Company (the “Shares”) which included, without limitation, those unissued shares resulting from the Capital Reduction were cancelled and forthwith upon such cancellation, the authorised share capital was increased to HK\$80,000,000 by creation of such additional number of shares of HK\$0.01 each.

The issued and unissued ordinary shares resulting from the above changes ranked pari passu in all respects in accordance with the clauses of the Company’s Articles of Association.

A notice in respect of the Capital Reduction as required by Section 46 of the Companies Act has been published in Bermuda on 21st November, 2001 and the Stock Exchange has granted the listing of, and permission to deal in, the Share. Accordingly, the Capital Reduction was completed on 11th December, 2001.

Details of the above are set out in the announcement of the Company dated 11th December, 2001.

## 15. Contingent liabilities

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Guarantee given to a financial institution in respect of credit facilities granted to SRI	<u>38,660</u>	<u>38,660</u>

As at balance sheet date, the amount utilised by SRI was amounting to approximately HK\$38,660,000 (31st March, 2001: HK\$38,660,000) and the financial institution has issued a demand letter to SRI to request for immediate repayment. Up to the date of this report, the Group did not received any demand payment notice from the financial institution in respect of these guarantees.



## 16. Reserves

	Capital		Special reserve	Investment property			Translation reserve	Deficit	Total
	Share redemption premium	reserve		Capital reserve	revaluation reserve	Asset revaluation reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2000	414,978	115	168,788	49,460	45,700	314,749	1,274	(981,951)	13,113
Share of post-acquisition reserve realised on disposal of a property by SRI	-	-	-	-	-	(623)	-	623	-
Share of post-acquisition reserve movements of associates	-	-	-	(1)	-	(85,820)	(4,062)	-	(89,883)
Realised on disposal of associates	-	-	-	568	-	(683)	98	-	(17)
Realised on disposal of subsidiaries	-	-	-	(258)	-	-	-	-	(258)
Realised on disposal of investment properties	-	-	-	-	(45,700)	-	-	45,700	-
Surplus (deficit) arising on revaluation	-	-	-	-	11,278	(9,416)	-	-	1,862
Net loss for the year	-	-	-	-	-	-	-	(261,301)	(261,301)
As 31st March, 2001	414,978	115	168,788	49,769	11,278	218,207	(2,690)	(1,196,929)	(336,484)
Realised on disposal of property, plant and equipment	-	-	-	-	-	(7,038)	-	7,038	-
Share of post-acquisition reserve movements of associates	-	-	-	-	-	64	1,376	-	1,440
Realised on partial disposal of an associate	-	-	-	4,836	-	14,431	860	-	20,127
Net loss for the period	-	-	-	-	-	-	-	(109,190)	(109,190)
At 30th September, 2001	<u>414,978</u>	<u>115</u>	<u>168,788</u>	<u>54,605</u>	<u>11,278</u>	<u>225,664</u>	<u>(454)</u>	<u>(1,299,081)</u>	<u>(424,107)</u>

## 17. Litigation

The Group had litigations as follows:

- (a) In December 1998, the Company entered into the Agreement with CMB and with the Third Parties. Under the terms of the Agreement, a loan from CMB amounting to approximately HK\$176 million was to be assumed by the Group in consideration for the acquisition of an investment property and a property development project from the Third Parties. The Directors have objected to the validity of the Agreement and the Group has withheld payments of principal and interest in the sum of approximately HK\$432 million up to 30th September, 2001. In response, CMB filed a writ of summons against the Group, claiming immediate repayment of all amounts due from the Group including interest and costs as stated in the Agreement and a separate loan agreement. The Directors believe that there are good reasons to challenge the validity of the Agreement. The Company did not admit the claims brought by CMB and filed a counterclaim against CMB and the Third Parties. CMB and the Third Parties subsequently filed replies objecting to the counterclaim. CMB had also taken out summons for summary judgement. The Group has made a submission to the court in relation to the application for summary judgement.

On 5th January, 2001, CMB has been granted an injunction restricting, among other things:

- (1) The Group from dealing with the remaining sale proceeds balance amounting to approximately HK\$6 million arising from the disposal of a property after deducting the mortgage outstanding and related expenses without the approval of the High Court; and
- (2) A subsidiary of the Group from disposing or dealing with or diminishing the value of its assets up to the value of US\$10 million.

As at 30th September, 2001 and 31st March, 2001, the amount of approximately HK\$6 million was put under the custody of the High Court.

On 15th June, 2001, the High Court handed down a ruling on CMB's summons for summary judgment that the Group had an arguable defence for the case. CMB's summons for summary judgment was therefore dismissed and the Group were given unconditional leave to defend.

The Company is seeking legal advice on further appropriate course of action to be taken.

- (b) In March, 2001, a writ of summons was issued by Peregrine against a subsidiary of the Company, demanding immediate repayment of the sum of approximately HK\$109 million and interest thereon, being the amount due and payable under the facilities granted pursuant to a margin agreement entered into between Peregrine and the subsidiary without any corporate guarantee for the Group.

The Group is currently discussing with its legal advisers regarding as to the appropriate course of action to be taken.

- (c) In July 2000, the Group commenced a lawsuit at High People's Court, Hubei Province, the PRC against Huangshi Kangsai Group Co., Ltd. ("Huangshi Kangsai") claiming for an amount of approximately HK\$23 million pursuant to an undertaking given by Huangshi Kangsai. On 6th September, 2000, the High People's Court, Hubei province, the PRC granted an order in favour of the Group to freeze the assets of Huangshi Kangsai for such value as equivalent to approximately HK\$30 million.

In the opinion of the Directors, the final outcome of this litigation cannot be determined with reasonable certainty at this time and accordingly, no amount has been accounted for in the financial statements.

- (d) In July 2000, the Group commenced proceedings against New Era Group (H.K.) Limited ("New Era") and Cross Union Development Limited ("Cross Union") at Middle People's Court, Shenzhen, the PRC claiming for the amount of US\$800,000 (equivalent to approximately HK\$6.2 million) and interests of US\$100,000 (equivalent to approximately HK\$780,000) thereon, being deposit paid by the Group for the acquisition of the entire issued share capital of an associate of New Era in respect of an agreement dated 3rd April, 1995, as supplemented by a supplemental agreement dated 19th May, 1995.

In the opinion of the Directors, the outcome of this litigation cannot be determined with reasonable certainty at this time and accordingly, no amount has been accounted for in the financial statements.

In addition, as at 30th September, 2001, the Company and certain of its subsidiaries are parties to various legal claims and counterclaims in their ordinary course of business. In the opinion of the Directors, ultimate resolution of these claims, counterclaims and the threatened litigations would not have a material adverse impact on the financial position of the Group and the Company.

## 18. Related party transactions

- (a) The Group had the following significant transactions with related parties during both periods:

		For the six months ended 30th September,	
		2001	2000
	Notes	HK\$'000	HK\$'000
Interest expenses payable to the SRI Group	(i)	245	89
Interest income from the SRI Group	(ii)	–	263
Management fee income from the SRI Group	(iii)	–	2,067
Rental income from the SRI Group	(iv)	<u>24</u>	<u>1,200</u>

Notes:

- (i) Interest expenses were based on the prevailing market interest rate.
  - (ii) Interest income was based on the prevailing market interest rate.
  - (iii) Management fee was based on costs incurred.
  - (iv) Rental income was determined based on market rates and floor area.
- (b) The Group's banking facilities as at 30th September, 2001 were guaranteed by a Director of the Company to the extent of HK\$55,000,000 (31.3.2001: HK\$55,000,000).