

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, properties held for development, cold storage warehouses, other 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 has adopted, for the first time, a number of new and revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. SSAPs that have an impact on the condensed consolidated financial statements are as follows:

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.

Goodwill

The new SSAP 30 "Business combinations" prescribes the treatment of goodwill and negative goodwill on acquisition of a subsidiary. Under the transitional provisions set out in SSAP 30, the Group has elected not to restate negative goodwill previously credited to reserves. Therefore, negative goodwill arising on acquisitions 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.

Negative goodwill arising on acquisitions 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 balances resulted.

2. BASIS OF PREPARATION OF UNAUDITED INTERIM FINANCIAL REPORT AND SUMMARY OF THE INDEPENDENT ACCOUNTANTS' REVIEW REPORT

In preparing the unaudited interim financial report, the Directors have given careful consideration to the future liquidity of the Group in the light of the Group's net current liabilities of approximately HK\$1,231 million as at 30th September, 2001.

The Group's servicing of borrowings from certain financial creditors (the "Financial Creditors") were not made according to the repayment schedules set by the Financial Creditors such that the Group's total borrowings from these Financial Creditors have become due for immediate repayment. This has given rise to the events described below:

Receivers (the "Receivers") have been appointed by certain of the Financial Creditors (the "Banking Syndicate") and a secured financial creditor (the "Third Property Creditor", not being a member of the Banking Syndicate) in respect of the Group's three cold storage warehouses (the "Cold Storage Warehouses") in Hong Kong. The outstanding borrowings from the Banking Syndicate and the Third Property Creditor as at 30th September, 2001, excluding interest, amounted to approximately HK\$453 million and HK\$234.2 million respectively. The aggregate carrying amount of the Cold Storage Warehouses were approximately HK\$1,106 million as at 30th September, 2001.

During the reporting period, the Banking Syndicate issued a writs of summons to a subsidiary of the Group in its capacity as a guarantor to the facilities granted to the Group (the "Syndicated Loan") demanding immediate repayment of the Syndicated Loan. This subsidiary operates one of the Cold Storage Warehouses (the "Third Property").

Subsequent to the period end, the Banking Syndicate filed winding-up petitions (the “Winding-up Petitions”) against a subsidiary of the Group as a borrower, the Company and three subsidiaries of the Group as guarantors of the Syndicated Loan. Out of the four subsidiaries of the Company, three subsidiaries are principal operating subsidiaries of the Company carrying on the cold storage and warehousing operations of the Group. As at the date of the report, the three Cold Storage Warehouses of the Group in Hong Kong continue to be used by the Group for its cold storage warehousing businesses.

Further, letters of interests were received by the Receivers to dispose of three Cold Storage Warehouses. Up to the date of this report, the Receivers have not yet responded to the letters of interest and accordingly the terms and conditions have not yet to be finalised.

During the period under review, one of the Financial Creditors (the “Third Property Second Mortgage Creditor”, not being a member of the Banking Syndicate), issued originating summons to a subsidiary of the Group demanding to deliver vacant possession of the Third Property as a result of the failure of the Group to make repayment in accordance with schedule. The outstanding borrowings from the Third Property Second Mortgage Creditor as at 30th September, 2001, excluding interest, amounted to approximately HK\$73.5 million.

During the period, the Group was requested by one of the Financial Creditors (the “Secured Assets Creditor”, being a member of the Banking Syndicate) to deliver (a) certain of its investment properties and other land and buildings (the “Charged Properties”) with an aggregate carrying amount of approximately HK\$132 million as at 30th September, 2001; and (b) share certificates of certain other investments with a net book value of approximately HK\$11.6 million as at 30th September, 2001, for disposal of these secured assets to repay the outstanding borrowings due to the Secured Assets Creditor. The outstanding borrowings from the Secured Assets Creditor as at 30th September, 2001, excluding interest, amounted to approximately HK\$258.8 million. Subsequent to the period ended, the Company was informed that an offer to purchase dated 1st November, 2001 was executed by the Secured Assets Creditor for the disposal of the Charged Properties at a consideration of approximately HK\$132 million. The net book value of the Charged Properties as at 30th September, 2001 was approximately HK\$132 million.

Against this background, the Directors are in the process of exploring with the Group's Financial Creditors ways to restructure the Group's borrowings. Provided that the Financial Creditors continue to support the Group until such time as agreement can be reached for the restructuring of the Group's borrowings and provided that the Winding-up Petitions would not be proceeded, 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 following matters:

(a) Fundamental uncertainties relating to the going concern basis

On 12th December, 2001, the Winding-up Petitions were served on the Company and four wholly-owned subsidiaries of the Company. Out of the four subsidiaries of the Company, three subsidiaries are principal operating subsidiaries of the Company carrying on the cold storage and warehousing operations of the Group at the Cold Storage Warehouses.

In addition to the appointment of the Receivers, certain of the financial creditors of the Group have taken action in connection with their specific security over certain assets of the Group.

Against this background, the Directors are in the process of exploring with the Group's financial creditors ways to restructure the Group's borrowings. Provided that the financial creditors continue to support the Group until such time as agreement can be reached for the restructuring of the Group's borrowings and provided that the Winding-up Petitions would not be proceeded, 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 consider that appropriate disclosures have been made.

- (b) The evidence of certain items available to the Independent Accountants was limited as follows:
- (1) Included in the Group's property, plant and machinery as at 31st March, 2001 and 30th September, 2001 were properties held for development of approximately HK\$54 million and HK\$60 million, respectively. The Independent Accountants were unable to obtain sufficient information and explanations regarding the fair value of the properties held for development as at 31st March, 2001 and 30th September, 2001 and to assess whether any impairment loss should be recognised in respect of the properties.
 - (2) On 11th June, 2001 and 9th August, 2001, the Receivers have been appointed by certain of the Financial Creditors of the Group in respect of the Cold Storage Warehouses with an aggregate carrying amount of approximately HK\$1,106 million as at 30th September, 2001. The Receivers are in progress of disposing of the Cold Storage Warehouses. The Independent Accountants were unable to obtain sufficient information and explanations regarding the fair value of these warehouses as at 30th September, 2001 in order to assess whether any impairment loss should be recognised in respect of these warehouses.

Any adjustments to the above amounts 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.

3. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

Business Segments

For the six months ended 30th September, 2001

	Continuing operations			Discontinued operations		Eliminations	Consolidation
	Cold storage warehousing, logistics management and related services HK\$'000	Financial services – money lending business HK\$'000	Rental income HK\$'000	food retailing and distribution HK\$'000	HK\$'000		
REVENUE							
External revenue	88,430	783	4,820	-	-	-	94,033
Inter-segment revenue	-	91,488	-	-	(91,488)	-	-
Total revenue	88,430	92,271	4,820	-	(91,488)	-	94,033
SEGMENT RESULTS							
	25,592	783	3,308	-	-	-	29,683
Unallocated corporate items							
- other revenue							3,388
- selling and administrative expenses							(34,056)
- other operating expenses							(34,599)
Loss from operations							(35,584)

3. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Cont'd)

Business Segments (Cont'd)

For the six months ended 30th September, 2000

	Continuing operations		Discontinued operations		Eliminations	Consolidation
	Cold storage warehousing, logistics management and related services HK\$'000	Financial services – money lending business HK\$'000	Rental income HK\$'000	food retailing and distribution HK\$'000		
REVENUE						
External revenue	98,495	970	6,356	7,985	-	113,806
Inter-segment revenue	-	110,012	2,203	-	(112,215)	-
Total revenue	<u>98,495</u>	<u>110,982</u>	<u>8,559</u>	<u>7,985</u>	<u>(112,215)</u>	<u>113,806</u>
SEGMENT RESULTS	<u>18,869</u>	<u>970</u>	<u>4,888</u>	<u>2,083</u>	<u>-</u>	<u>26,810</u>
Unallocated corporate items						
- other revenue						69,801
- selling and administrative expenses						(48,020)
- other operating expenses						(36,624)
Profit from operations						<u>11,967</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Cont'd)

Geographical Segments

For the six months ended 30th September, 2001

	Continuing operations		Discontinued operations		Eliminations	Consolidation
	Hong Kong	Australia	Hong Kong	Australia		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
External revenue	88,385	5,648	-	-	-	94,033
Inter-segment revenue	91,488	-	-	-	(91,488)	-
Total revenue	<u>179,873</u>	<u>5,648</u>	<u>-</u>	<u>-</u>	<u>(91,488)</u>	<u>94,033</u>
SEGMENT RESULTS	<u>29,022</u>	<u>661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,683</u>
Unallocated corporate items						
- other revenue						3,388
- selling and administrative expenses						(34,056)
- other operating expenses						(34,599)
Loss from operations						<u>(35,584)</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Cont'd)

Geographical Segments(Cont'd)

For the six months ended 30th September, 2000

	Continuing operations		Discontinued operations		Eliminations	Consolidation
	Hong Kong	Australia	Hong Kong	Australia		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
REVENUE						
External revenue	96,026	9,795	-	7,985	-	113,806
Inter-segment revenue	112,215	-	-	-	(112,215)	-
Total revenue	<u>208,241</u>	<u>9,795</u>	<u>-</u>	<u>7,985</u>	<u>(112,215)</u>	<u>113,806</u>
SEGMENT RESULTS	<u>21,943</u>	<u>2,784</u>	<u>-</u>	<u>2,083</u>	<u>-</u>	26,810
Unallocated corporate items						
- other revenue						69,801
- selling and administrative expenses						(48,020)
- other operating expenses						<u>(36,624)</u>
Profit from operations						<u>11,967</u>

4. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortisation of approximately HK\$18,532,000 (for the six months ended 30th September, 2000: HK\$24,502,000) was charged in respect of the Group's property, plant and equipment.

5. OTHER REVENUE

	For the six months ended 30th September,	
	2001	2000
	HK\$'000	HK\$'000
Other revenue comprises:		
Net realised gains on other investments	779	41,982
Unrealised gains on other investments	–	26,953
Others	2,609	866
	<u>3,388</u>	<u>69,801</u>

6. OTHER OPERATING EXPENSES

	For the six months ended 30th September,	
	2001	2000
	HK\$'000	HK\$'000
Other operating expenses comprise:		
Loss on disposals of investment properties	28,838	–
Unrealised losses on other investments	3,859	–
Provision for bad and doubtful debts	–	33,092
Others	1,902	3,532
	<u>34,599</u>	<u>36,624</u>

7. TAXATION CREDIT

	For the six months ended 30th September,	
	2001	2000
	HK\$'000	HK\$'000
Deferred taxation	–	192
Share of taxation on results of associates	–	(2)
	<u>–</u>	<u>190</u>

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

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

8. DIVIDEND

No dividend was paid during either period.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$111,025,000 (for the six months ended 30th September, 2000: HK\$51,863,000) and on 1,547,042,829 shares in issue during the period.

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

10. INVESTMENT PROPERTIES, PROPERTIES, PLANT AND EQUIPMENT

Among other movements, during the period, the Group disposed of investment properties with a carrying amount of approximately HK\$89 million for a total consideration (net of expenses) of approximately HK\$60.2 million, resulting in a loss of approximately HK\$28.8 million. There was no disposal of investment properties in the six months ended 30th September, 2000.

During the period, impairment losses of approximately HK\$17.3 million and HK\$10.4 million (for the six months ended 30th September, 2000: Nil) were recognised in respect of investment properties and property, plant and equipment, respectively.

11. TRADE RECEIVABLES

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

Details of the ageing analysis of trade receivables are as follows:

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
0-30 days	15,312	12,535
31-60 days	10,619	7,247
61-180 days	3,745	4,297
More than 180 days	427	215
	<u>30,103</u>	<u>24,294</u>

12. TRADE PAYABLES

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

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
0-30 days	5,049	6,046
31-60 days	2,379	1,365
61-90 days	465	263
More than 90 days	622	492
	<u>8,515</u>	<u>8,166</u>

13. SHARE CAPITAL

There were no movements in the share capital of the Company for both periods.

Pursuant to a special resolution at an extraordinary general meeting of the Company held on 6th September, 2001, subject to the approval by and registration with the Grand Court and Registrar of the Cayman Islands, respectively, the shareholders approved the following:

- (a) The issued share capital of the Company will be reduced from an amount of HK\$77,352,141 to HK\$15,470,428 by cancelling paid up capital of the Company to the extent of HK\$0.04 on each of the ordinary share in issue so that each issued ordinary share of HK\$0.05 in the capital of the Company shall be 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 be set off against accumulated losses of the Company as at 31st March, 2001;
- (c) The balance of the accumulated losses of the Company as at 31st March, 2001 which has not been cancelled pursuant to paragraph (b) be eliminated by the cancellation of the same amount standing to the credit of the share premium account of the Company; and

- (d) subject to and forthwith upon the Capital Reduction taking effect, all of the authorised but unissued shares of HK\$0.05 each in the capital of the Company which shall include, without limitation, those unissued shares resulting from the Capital Reduction be canceled and forthwith upon such cancellation, the authorised share capital be increased to HK\$1,000,000,000 by the creation of such additional number of shares of HK\$0.01 each.

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

Up to the date of this report, the Company has not obtained the approval by and completion of the registration with the Grand Count and Registrar of the Cayman Islands, respectively.

14. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1st April, 2000	432,722	3,800	49,991	718,888	2,543	(444,386)	763,558
Exchange differences arising from translation of overseas operations	-	-	-	-	(20,716)	-	(20,716)
Deficit on revaluation	-	-	-	(238,507)	-	-	(238,507)
Surplus on revaluation	-	-	-	119	-	-	119
Realised on disposal of subsidiaries	-	-	(3)	-	9,810	-	9,807
Realised on disposal of a property	-	-	-	(1,684)	-	1,684	-
Net loss for the year	-	-	-	-	-	(239,054)	(239,054)
At 31st March, 2001	432,722	3,800	49,988	478,816	(8,363)	(681,756)	275,207
Exchange differences arising from translation of overseas operations	-	-	-	-	6,205	-	6,205
Net loss for the period	-	-	-	-	-	(111,025)	(111,025)
At 30th September, 2001	<u>432,722</u>	<u>3,800</u>	<u>49,988</u>	<u>478,816</u>	<u>(2,158)</u>	<u>(792,781)</u>	<u>170,387</u>

15. PLEDGE OF ASSETS

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
The following assets of the Group are pledged to secure credit facilities granted to the Group		
Other property, plant and equipment	1,182,889	1,208,841
Investment properties	82,407	188,700
Other investments	12,242	25,665
Bank deposits	17,204	17,378
	<u>1,294,742</u>	<u>1,440,584</u>

At the balance sheet date, the Company had pledged its share in a subsidiary holding investment properties of approximately HK\$135,210,000 (31st March, 2001: HK\$135,210,000) in the People's Republic of China to a bank for general banking facilities granted to the Group.

16. LITIGATIONS

- (a) In respect of a written agreement of approximately US\$628,000 (equivalent to approximately HK\$4,898,000) entered into by the Company with an independent third party (the "Third Party") as amended by an amendment agreement on 9th November, 2000 as detailed in the Company's annual report for the year ended 31st March, 2001, the Company, subsequent to the period ended 30th September, 2001 agreed to settle the claim with the Third Party by providing, supplying or procuring to provide or supply to the Third Party and/or its nominees for a maximum value equivalent to US\$236,000 (equivalent to approximately HK\$1.8 million) and within the time limit of one year from the date hereof the storage services and advertising services in one of the Group's Cold Storage Warehouses.

- (b) In 1999, the Group entered into a sales and purchase agreement to dispose of the entire issued share capital of certain former subsidiaries (the “Former Subsidiaries”) to another third party. On 10th November, 2001, a writ of summons was issued by the third party claiming against the Group in respect of:
- (i) indemnity granted to the third party in respect of the claims (the “Claims”) and the tax liabilities (the “Tax Liabilities”) of these Former Subsidiaries prior to the completion of the agreement;
 - (ii) deposit an amount of HK\$12 million into an escrow account or payment of HK\$12 million to the third party as security for the payment of the Claims; and
 - (iii) deposit an amount of approximately HK\$5 million into an escrow account or payment of approximately HK\$6 million to the third party as security for the payment of the Tax Liabilities.

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

17. POST BALANCE SHEET EVENTS

Details in respect of the putting up the Cold Storage Warehouses on sale by the Receivers; the Winding-up Petitions against the Company and four wholly-owned subsidiaries of the Company, a sales of the Charged Properties have been set out in the Company’s announcements dated 8th November, 2001 and 14th December, 2001.

18. RELATED PARTY TRANSACTIONS

Details of significant related party transactions during the interim reporting period are as follows:

(a)

	For the six months ended 30th September,	
	2001 HK\$'000	2000 HK\$'000
Interest income receivable from the I-China Group	245	89
Interest expense payable to the I-China Group	–	263
Management fee payable to the I-China Group	–	2,067
Rental expenses payable to the I-China Group	<u>24</u>	<u>1,200</u>

Interest income and expenses were calculated with reference to prevailing market interest rates. Management fee was based on costs incurred. Rental expenses were determined based on market rates and floor area.

- (b) As at 30th September, 2001, the Group's bank borrowings amounting to approximately HK\$38,660,000 (31.3.2001: HK\$38,660,000) were guaranteed by I-China Holdings Limited, a substantial shareholder of the Company.
- (c) During the six months ended 30th September, 2000, the Group paid service fees amounting to approximately HK\$1,759,000 to Joyful Plan Development Limited ("Joyful") in connection with the provision of transportation services to the Group. Mr. Michael Ho Hoi Yu, a former Vice chairman of the Company, has significant beneficial interest in Joyful. The service fees were negotiated by reference to prices of similar transactions.

No such of payment has been paid during the period.