

MAGNIFICENT ESTATES LIMITED
(華 大 地 產 投 資 有 限 公 司)



2001/2002 Interim Report

二 零 零 一 年 至 二 零 零 二 年 中 期 報 告

MANAGEMENT COMMENTARY

INTERIM RESULTS

The board of directors (the “Board”) of Magnificent Estates Limited (the “Company”) announces the unaudited consolidated loss after taxation of the Company and its subsidiaries (together the “Group”) for the six months ended 30th September, 2001 amounted to approximately HK\$9,459,000 (30/9/2000: profit of HK\$5,988,000).

The results of the Group for the six months ended 30th September, 2001 and its financial position as at that date are set out in the condensed financial statements on pages 6 to 18 of this report.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 30th September, 2001 (30/9/2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the financial period under review, the Group continued with its operations of property investment and development, property leasing, hotel investment and investment holding. The loss for the period attributable to shareholders was mainly due to the loss arising from the sale and the value marked down to market price of a portfolio of securities investment in blue-chip stocks subsequent to the “September 11” event. The decrease in the Group’s turnover was mainly due to the decrease in the turnover from securities trading and investment.

Operating profit from the Group’s hotel improved moderately due to cost reduction but the hotel business environment has seen weakened market conditions during the summer and deteriorated further after September 2001. The average occupancy rate of the hotel for the period under review was approximately 80 per cent. at reduced room rates.

As to property leasing, the Group’s investment properties remained fully leased during the financial period under review.

As regards property development, foundation works have been completed at the Group’s 34 town houses project at Ho Chung, Sai Kung, N.T. and it is expected that the development will be completed by the end of 2002.

In August 2001, the Group has entered into an agreement to acquire the Aspen Court at No.46, High Street, Hong Kong. The property is a 26-storey commercial/residential building with a total gross floor area of approximately 40,214 sq.ft.. The consideration for the purchase is HK\$68 million and the transaction was completed in October 2001.

As to capital expansion, in May 2001, the Company issued HK\$96.7 million of 5% mandatorily convertible bonds, the proceeds of which have been applied towards the reduction of the Group's current liabilities. Such convertible bonds will be fully converted into equity upon their maturity in November 2002 to strengthen the Group's capital base. As at the end of the financial period, gearing of the Group in terms of external bank borrowings remained at around 7.2 per cent. The Group's external bank borrowings, which are secured by pledging certain properties, listed securities and other assets of the Group, carry interest at floating interest rates and are denominated in Hong Kong dollars or U.S. dollars. Accordingly, the exchange risk of the Group is minimal.

There were no material acquisitions of subsidiaries or associates during the period under review.

There were no material changes in the contingent liabilities of the Group since 31st March, 2001.

During the financial period under review, there was no significant change in the Group's staffing level with remunerations and benefits set with reference to the market.

Subsequent to the financial period under review, in October 2001, Shun Ho Technology Holdings Limited ("Shun Ho Technology"), the Group's major shareholder, has increased its shareholding in the Company to 50.01 per cent so that the Company has since become a subsidiary company of Shun Ho Technology. An announcement of change of financial year end date in line with its parent company will be made as soon as practicable.

Generally, the Board expects the business environment in Hong Kong remains difficult as a result of the recession in the world's major economies. Given the prevailing market outlook, the Group will continue to follow a cautious approach in its business development.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the period.

DIRECTORS' INTERESTS IN SHARES, DEBTS SECURITIES AND RIGHTS TO SUBSCRIBE FOR SHARES

At 30th September, 2001, the beneficial interests of the directors and their associates in the issued ordinary shares, debt securities and rights to subscribe for shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Corporate Interests

Shares of HK\$0.01 each in the Company	
– William Cheng Kai Man	1,580,629,620 shares (<i>Note 1</i>)
Convertible bonds of the Company	
– William Cheng Kai Man	HK\$94,404,175 (<i>Note 2</i>)
Warrants of the Company	
– William Cheng Kai Man	629,361,166 units (<i>Note 2</i>)

At 30th September, 2001, the subsidiaries of the Company beneficially held a total of 62,602,700 and 83,739,510 ordinary shares in Shun Ho Resources and Shun Ho Technology respectively, representing approximately 20.6% and 15.6% interests in their issued share capital respectively.

No options to subscribe for shares in the Company were granted or exercised during the period.

Share options previously granted to a director, which were outstanding at 30th September, 2001, were as follows:

Name of the director	Number of shares issuable under options	Exercisable period		Subscription price per share HK\$
		From	To	
William Cheng Kai Man	43,799,524	30/6/1994	29/6/2004	0.20

Notes:

1. *At 30th September, 2001, Shun Ho Group Limited, a company controlled by Mr. William Cheng Kai Man, beneficially held 147,918,750 ordinary shares in Shun Ho Resources Holdings Limited ("Shun Ho Resources"), representing approximately 48.6% of its issued share capital. Mr. William Cheng Kai Man also had personal interests in 6,087,375 ordinary shares in Shun Ho Resources, representing approximately 2% of its issued capital. Shun Ho Resources and its subsidiaries in turn beneficially held 265,720,172 ordinary shares in Shun Ho Technology Holdings Limited ("Shun Ho Technology"), representing approximately 49.5% of its issued share capital. As at that date, Shun Ho Technology and its subsidiary beneficially held 1,580,629,620 ordinary shares in the Company. Therefore, Mr. William Cheng Kai Man was deemed to have interests in the shares of the Company, its subsidiaries and associates.*
2. *Shun Ho Technology together with a subsidiary beneficially held convertible bonds of the Company with an aggregate principal amount of HK\$94,404,175 and 629,361,166 units of warrants of the Company, representing approximately 97.6% of the total principal amount of convertible bonds and units of warrants outstanding at 30th September, 2001. Details of the convertible bonds and warrants are shown in notes 16 and 14(c) to the condensed financial statements set out in this interim report respectively. Subsequent to 30th September 2001, Shun Ho Technology has exercised the conversion right of the convertible bonds to convert an aggregate carrying value of HK\$7,800,000 into 130,000,000 shares in the Company.*

Other than as disclosed above and save for shares in subsidiaries held by a director in trust for their immediate holding companies, at 30th September, 2001, none of the directors or their associates, had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or their associates or their spouses or children under the age of 18, had any right to subscribe for the equity or debt securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

At 30th September, 2001, the interest of every person, other than a director or chief executive of the Company, in the equity securities of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

Name of the shareholders	Number of shares
Shun Ho Technology Holdings Limited	1,580,629,620
Shun Ho Resources Holdings Limited (<i>Note 1</i>)	1,580,629,620
Shun Ho Group Limited (<i>Note 1</i>)	1,580,629,620
Madam Liza Lee Pui Ling (<i>Note 2</i>)	1,580,629,620

Notes:

1. Shun Ho Resources Holdings Limited and Shun Ho Group Limited were taken to be interested in 1,580,629,620 shares in the Company by virtue of their direct and indirect interests in Shun Ho Technology Holdings Limited in accordance with Section 8(2) of the SDI Ordinance.
2. Madam Liza Lee Pui Ling, the spouse of Mr. William Cheng Kai Man, a director of the Company, was taken to be interested in 1,580,629,620 shares in the Company in accordance with Section 8(1) of the SDI Ordinance.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital at 30th September, 2001.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting policies adopted by the Group and discussed with management auditing, internal control and financial reporting matters, including the review of this interim report.

CORPORATE GOVERNANCE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board

Peter LEE Yip Wah
Secretary

Hong Kong, 14th December, 2001

INDEPENDENT REVIEW REPORT

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TO THE BOARD OF DIRECTORS OF MAGNIFICENT ESTATES LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 6 to 18.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2001.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 14th December, 2001

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

		Six months ended	
		30.9.2001	30.9.2000
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	3	123,419	150,581
Cost of securities and inventories sold		(96,159)	(115,377)
Other service costs		(13,831)	(15,245)
		13,429	19,959
Other revenue		1,043	2,478
Losses on investments in securities	4	(7,174)	(1,224)
Administrative expenses		(9,653)	(10,086)
(Loss) profit from operations	5	(2,355)	11,127
Finance costs	6	(5,824)	(5,808)
Share of results of associates	7	(1,013)	628
(Loss) profit from ordinary activities before taxation		(9,192)	5,947
Taxation	8	(267)	41
Net (loss) profit for the period		(9,459)	5,988
		HK Cent	HK Cent
(Loss) earnings per share	9		
Basic		(0.293)	0.186

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH SEPTEMBER, 2001

	<i>Notes</i>	30.9.2001 (unaudited) HK\$'000	31.3.2001 (audited) HK\$'000
Non-current Assets			
Investment properties	10	581,952	511,300
Property, plant and equipment		617,864	610,353
Properties under development		104,652	95,897
Interests in associates		91,053	95,000
Investments in securities	11	36,522	45,295
		1,432,043	1,357,845
Current Assets			
Inventories		421	471
Investments in securities	11	37,966	115,155
Trade and other receivables	12	2,757	3,311
Deposits and prepayments		1,266	1,202
Trade balances due from shareholders		198	22
Pledged bank deposits		4,822	4,777
Bank balances and cash		6,200	4,077
		53,630	129,015
Current Liabilities			
Trade and other payables	13	70,615	4,767
Rental and other deposits received		5,830	5,608
Advance from a shareholder		94,300	183,405
Advance from a director		23,052	22,663
Trade balance due to an associate		157	163
Taxation payable		1,163	1,027
Bank loans, secured		79,683	133,543
Bank overdrafts, unsecured		486	268
		275,286	351,444
Net Current Liabilities		(221,656)	(222,429)
		1,210,387	1,135,416
Capital and Reserves			
Share capital	14	32,236	32,235
Reserves	15	1,082,457	1,103,181
		1,114,693	1,135,416
Non-current Liabilities			
Convertible bonds	16	95,694	–
		1,210,387	1,135,416

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

	Six months ended	
	30.9.2001 (unaudited) HK\$'000	30.9.2000 (unaudited) HK\$'000
Revaluation decrease on other securities	(9,139)	(30,650)
Share of investment property revaluation reserve of an associate	<u>(2,128)</u>	<u>–</u>
Net losses not recognised in the income statement	(11,267)	(30,650)
Net (loss) profit for the period	<u>(9,459)</u>	<u>5,988</u>
Net recognised losses	<u><u>(20,726)</u></u>	<u><u>(24,662)</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

	Six months ended	
	30.9.2001 (unaudited) HK\$'000	30.9.2000 (unaudited) HK\$'000
Net cash inflow (outflow) from operating activities	78,372	(21,558)
Net cash outflow from returns on investments and servicing of finance	(7,596)	(8,810)
Net cash outflow from taxation	–	(618)
Net cash outflow from investing activities	(21,602)	(27,079)
Net cash inflow (outflow) before financing	49,174	(58,065)
Net cash inflow from financing	15,427	30,945
Increase (decrease) in cash and cash equivalents	64,601	(27,120)
Cash and cash equivalents at beginning of the period	(107,349)	(19,082)
Cash and cash equivalents at end of the period	<u>(42,748)</u>	<u>(46,202)</u>
Analysis of the balances of cash and cash equivalents		
Pledged bank deposits	4,822	–
Bank balances and cash	6,200	2,001
Bank loans and overdrafts	(80,169)	(114,150)
	<u>(69,147)</u>	<u>(112,149)</u>
Bank loans not within three months of maturity	26,399	65,947
	<u>(42,748)</u>	<u>(46,202)</u>

NOTES TO THE CONDENSED 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting”.

2. SIGNIFICANT 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.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. Other than the revised accounting policy for goodwill following the adoption of SSAP 30 “Business Combinations” and the accounting policy adopted for convertible bonds which is applicable to the current period as set out below, the accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2001.

Goodwill

In adopting SSAP 30 “Business Combinations”, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st April, 2001 is 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 the goodwill is determined to be impaired. Negative goodwill arising on acquisition 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 on or after 1st April, 2001 is capitalised and is amortised over its estimated useful life. Negative goodwill arising on acquisitions on or 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.

The adoption of this revised accounting policy does not have any material impact on the condensed financial statements of the Group for the period.

Convertible bonds

Convertible bonds are separately disclosed and regarded as liabilities. The expenses incurred directly in connection with the issue of the bonds are deferred and are amortised over the period of the bonds so as to produce a constant periodic rate of charge on the carrying amount of the bonds.

3. SEGMENT INFORMATION

The following is an analysis of the turnover and contribution to results of the Group:

	Turnover		(Loss) profit before taxation	
	Six months ended		Six months ended	
	30.9.2001	30.9.2000	30.9.2001	30.9.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hotel investment				
– Operations	15,966	17,361	1,443	1,300
– Disposal of property, plant and equipment	–	–	–	1,498
Property letting	11,083	10,409	10,563	9,863
Securities trading and investment	94,308	119,335	(8,182)	4,096
Treasury operations				
– interest income	2,062	3,476	2,062	3,476
	<u>123,419</u>	<u>150,581</u>	<u>5,886</u>	<u>20,233</u>
<i>Less: Unallocated operating and administrative expenses less amount reimbursed by related companies (note 20(g))</i>			(8,241)	(9,106)
Finance costs			(5,824)	(5,808)
Share of results of associates			(1,013)	628
			<u>(9,192)</u>	<u>5,947</u>

Substantially all the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and contributions to operating results for both periods presented were derived from Hong Kong.

4. LOSSES ON INVESTMENTS IN SECURITIES

	Six months ended	
	30.9.2001	30.9.2000
	HK\$'000	HK\$'000
Unrealised holding loss on trading securities	(7,174)	(2,755)
Write back of provision for impairment loss on other securities	–	1,531
	<u>(7,174)</u>	<u>(1,224)</u>

5. (LOSS) PROFIT FROM OPERATIONS

(Loss) profit from operations has been arrived at after charging (crediting):

	Six months ended	
	30.9.2001	30.9.2000
	HK\$'000	HK\$'000
Depreciation on property, plant and equipment	1,614	2,133
Gain on sale of property, plant and equipment	<u>(90)</u>	<u>(1,498)</u>

6. FINANCE COSTS

	Six months ended	
	30.9.2001	30.9.2000
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts	3,001	1,398
Other loans wholly repayable within five years	3,302	7,572
Convertible bonds	1,855	–
Bond issue expenses amortised	<u>345</u>	<u>–</u>
Total borrowing costs	8,503	8,970
Less: Amount capitalised in properties under development	<u>(2,679)</u>	<u>(3,162)</u>
	<u>5,824</u>	<u>5,808</u>

7. SHARE OF RESULTS OF ASSOCIATES

The share of results of associates includes the Group's attributable share of the decrease on revaluation of investment property dealt with in the income statement of an associate amounting to approximately HK\$2,372,000 (2000: Nil).

8. TAXATION

	Six months ended	
	30.9.2001	30.9.2000
	HK\$'000	HK\$'000
The (charge) credit comprises:		
Hong Kong Profits Tax		
Company and subsidiaries	(136)	(40)
Associates	<u>(131)</u>	<u>81</u>
	<u>(267)</u>	<u>41</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the period.

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the net loss for the period of HK\$9,459,000 (2000: net profit of HK\$5,988,000) and on the weighted average number of 3,223,595,851 (2000: 3,223,566,785) shares in issue.

Diluted earnings per share for the current period is not presented as the effect of the exercise of the Company's convertible bonds, warrants and share options would be anti-dilutive. Diluted earnings per share for the six months ended 30th September, 2000 is also not presented because the exercise price of the Company's share options was higher than the average price for shares for that period.

10. INVESTMENT PROPERTIES

During the period, the Group acquired an investment property situated in Hong Kong at a cost of approximately HK\$71 million.

11. INVESTMENTS IN SECURITIES

	Trading securities (current)		Other securities (non-current)	
	30.9.2001 HK\$'000	31.3.2001 HK\$'000	30.9.2001 HK\$'000	31.3.2001 HK\$'000
Listed securities at market value				
Equity securities listed:				
In Hong Kong	19,017	95,916	34,494	42,838
Outside Hong Kong	–	–	1,248	1,677
Debt securities listed outside				
Hong Kong	18,949	19,239	–	–
Unlisted investments	–	–	780	780
	<u>37,966</u>	<u>115,155</u>	<u>36,522</u>	<u>45,295</u>

12. TRADE AND OTHER RECEIVABLES

Except for an average credit period of 30 to 60 days granted to travel agencies and certain customers of the hotel, the Group does not allow any credit period to its customers.

The following is an aged analysis of trade and other receivables at the balance sheet date:

	30.9.2001 HK\$'000	31.3.2001 HK\$'000
0-30 days	2,081	2,123
31-60 days	612	527
Over 60 days	64	661
	<u>2,757</u>	<u>3,311</u>

13. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables at the balance sheet date:

	30.9.2001	31.3.2001
	HK\$'000	HK\$'000
Trade and interest payables, aged		
0-30 days	4,526	2,263
31-60 days	76	231
Over 60 days	2,161	2,273
Outstanding consideration and related costs for the acquisition of an investment property	63,852	–
	<u>70,615</u>	<u>4,767</u>

14. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each		Nominal value	
	30.9.2001	31.3.2001	30.9.2001	31.3.2001
	'000	'000	HK\$'000	HK\$'000
Authorised:				
At beginning and end of the period/year	<u>80,000,000</u>	80,000,000	<u>800,000</u>	<u>800,000</u>
Issued and fully paid:				
At beginning of the period/year	<u>3,223,567</u>	3,223,567	<u>32,235</u>	32,235
Exercise of convertible bonds	47	–	1	–
At end of the period/year	<u>3,223,614</u>	<u>3,223,567</u>	<u>32,236</u>	<u>32,235</u>

(a) Ordinary shares

During the period, the Company issued 47,341 new ordinary shares of HK\$0.01 each upon conversion of the convertible bonds as referred to in note 16.

(b) Share options

Other than the share options to subscribe for 12,000,000 ordinary shares in the Company previously granted which lapsed during the year ended 31st March, 2001, no options under the Company's share option scheme were granted, exercised or lapsed during the year and up to 30th September, 2001. Share options outstanding at 30th September, 2001 comprised options to subscribe for 43,799,524 ordinary shares at a subscription price of HK\$0.2 per share exercisable on or before 29th June, 2004.

(c) **Warrants**

During the period, in connection with the issue of convertible bonds, the Company issued a total of 644,713,356 units of warrants. The warrants carry aggregate subscription rights of HK\$22,564,967, entitling the holders thereof to subscribe for shares of the Company at the subscription price of HK\$0.035 per share, subject to adjustment, during the three months period commencing from 14th November, 2002. These warrants remained outstanding at 30th September, 2001.

15. RESERVES

	Share premium HK\$'000	Special capital reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Securities revaluation reserve HK\$'000	Goodwill on consolidation HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP								
At 1st April, 2000	114,369	612,477	194,406	2,451	(7,857)	(923)	226,167	1,141,090
Increase (decrease) on revaluations:								
– property	-	-	-	107	-	-	-	107
– other securities	-	-	-	-	(32,860)	-	-	(32,860)
Net loss for the year	-	-	-	-	-	-	(5,156)	(5,156)
At 31st March, 2001	114,369	612,477	194,406	2,558	(40,717)	(923)	221,011	1,103,181
Premium on issue of shares	2	-	-	-	-	-	-	2
Share of reserve of an associate	-	-	-	(2,128)	-	-	-	(2,128)
Decrease in revaluation of other securities	-	-	-	-	(9,139)	-	-	(9,139)
Net loss for the year	-	-	-	-	-	-	(9,459)	(9,459)
At 30th September, 2001	114,371	612,477	194,406	430	(49,856)	(923)	211,552	1,082,457

16. CONVERTIBLE BONDS

	30.9.2001	31.3.2001
	HK\$'000	HK\$'000
Unsecured convertible bonds	96,704	–
<i>Less: Unamortised bond issue expenses</i>	(1,010)	–
	95,694	–

During the period, the Company issued 1,611,783,392 units of convertible bonds (the “Bonds”) and 644,713,356 units of warrants at an aggregate consideration of HK\$96,707,004. The Bonds, which carry interest at 5 per cent per annum payable quarterly in arrears with the last payment due on 14th November, 2002, entitle the holders thereof to convert the Bonds into shares of the Company at a conversion price of HK\$0.06 per share during the period from 14th May, 2001 to 14th November, 2002 (the “Maturity Date”). The Company may redeem all or some of the Bonds at any time prior to the Maturity Date, subject to giving no less than 30 days nor more than 60 days of advance notice, at 120 per cent of their principal amount together with accrued interest. On the Maturity Date, any units of the Bonds not redeemed, repaid or converted will be mandatorily converted into shares of the Company at the conversion price.

During the period, the Bonds with an aggregate carrying value of approximately HK\$2,840 were converted into 47,341 new ordinary shares of the Company of HK\$0.01 each.

Details regarding the warrants are set out in note 14(c).

17. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding capital commitments not provided for in the financial statements as follows:

	30.9.2001	31.3.2001
	HK\$'000	HK\$'000
Property development expenditure:		
Contracted for	13,992	21,641
Authorised but not contracted for	863	1,916
	14,855	23,557

18. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At the balance sheet date, the bank loan facilities of subsidiaries, which were utilised to the extent of approximately HK\$80 million (31.3.2001: HK\$134 million), were secured by the following:

- (a) guarantees issued by the Company amounted to HK\$120 million (31.3.2001: HK\$120 million);
- (b) properties of the Group together with related assets with an aggregate carrying net book value of approximately HK\$540 million (31.3.2001: HK\$540 million);
- (c) pledge of shares in and subordination of loans due from subsidiaries with an aggregate carrying value of approximately HK\$199 million (31.3.2001: HK\$191 million);
- (d) assignment of the rentals and hotel revenue of a subsidiary; and
- (e) pledge of the listed securities and bank deposits held by subsidiaries with an aggregate carrying value of approximately HK\$66 million (31.3.2001: HK\$147 million) and HK\$4.8 million (31.3.2001: HK\$4.8 million) respectively.

19. LONG SERVICE PAYMENTS

At 30th September, 2001, certain employees of the Group had completed the required number of years of service under Hong Kong's Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 30th September, 2001, under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$2,349,000 (31.3.2001: HK\$2,275,000). No provision has been made in the financial statements in respect of such long service payments.

20. RELATED PARTY TRANSACTIONS

- (a) The property owned by a subsidiary of the Company's substantial shareholder, Shun Ho Technology Holdings Limited ("Shun Ho Technology"), was leased to the Group at the agreed rental of HK\$90,000 per month. Net rental paid by the Group for the period amounted to HK\$520,000 (2000: HK\$520,000).
- (b) During the period, Shun Ho Technology made unsecured advances to the Group which carried interest based on Hong Kong Inter-bank Offer Rate plus a specified margin and are repayable on demand. Interest payable by the Group on such advances amounted to HK\$2,914,000 (2000: HK\$6,345,000) in respect of the period. At the balance sheet date, such advances amounted to HK\$94,300,000 (31.3.2001: HK\$183,073,000) remained outstanding.

In addition, Shun Ho Technology also made unsecured interest free advances to the Group amounted to HK\$332,000 which were fully repaid during the period.

- (c) During the period, Mr. William Cheng Kai Man, a director of the Company, made unsecured advances to the Group which carried interest chargeable at bank fixed deposit rates and are repayable on demand. Interest payable by the Group on such advances amounted to HK\$388,000 (2000: HK\$652,000) in respect of the period. At the balance sheet date, advances from Mr. Cheng amounted to HK\$23,052,000 (31.3.2001: HK\$22,663,000) remained outstanding.
- (d) During the period, Shun Ho Technology and its subsidiaries subscribed for a total of approximately 1,573,403,000 (2000: Nil) units of convertible bonds and 629,361,000 (2000: Nil) units of warrants issued by the Company at an aggregate consideration of approximately HK\$94,404,000. Interest payable on the convertible bonds to Shun Ho Technology and its subsidiaries amounted to HK\$1,810,000 in respect of the period (2000: Nil).
- (e) A subsidiary, Claymont Services Limited, made unsecured advances with no fixed repayment terms to its associate, Lucky Country Development Limited. At the balance sheet date, such advances amounted to HK\$90,886,000 (31.3.2001: HK\$91,561,000) remained outstanding. Such advances to the extent of HK\$60,000,000 (31.3.2001: HK\$60,000,000) carried interest chargeable at the rates ranging from 5% to 8.5% per annum and the remaining balance was interest free. Interest receivable by the Group on such advances amounted to HK\$2,025,000 (2000: HK\$2,550,000) in respect of the period.
- (f) At 30th September, 2001, the Group had trade balances due by shareholders and due to an associate amounted to a total of HK\$198,000 (31.3.2001: HK\$22,000) and HK\$157,000 (31.3.2001: HK\$163,000) respectively which are unsecured, interest free and repayable on demand.
- (g) During the period, the Group provided administrative facilities to Shun Ho Technology and its substantial shareholder, Shun Ho Resources Holdings Limited, for which fees totalling HK\$849,000 (2000: HK\$905,000) and HK\$75,000 (2000: HK\$75,000), calculated on a cost reimbursement basis, were respectively charged.

21. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, following the conversion of the convertible bonds with an aggregate carrying value of HK\$7,800,000 by Shun Ho Technology into 130,000,000 new ordinary shares of the Company, Shun Ho Technology has become the ultimate holding company of the Company.