

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

The Directors are responsible for the preparation of the Group's unaudited interim financial statements. The unaudited condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), except that no attempt has been made to classify the liabilities of the Group into non-current or current terms as the repayment of loans will be the subject of the Group's restructuring proposals.

The basis of preparation, accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March 2001, except that the Group has adopted the following new/revised SSAPs which became effective for the current accounting period:

SSAP 14 (Revised) "Leases"

SSAP 14 (Revised) has introduced some amendments to the basis of accounting for finance and operating leases. In note 12 to these condensed interim financial statements, the Group has disclosed its total future aggregate minimum lease payments under non-cancellable operating leases in accordance with the SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

SSAP 31 "Impairment of assets"

SSAP 31 prescribes the procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its asset, as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

2. Segmental information

The Group's revenue and operating loss for the period analysed by principal activities and geographical location are as follows:–

	(Unaudited) Revenue		(Unaudited) Operating loss	
	Six months ended 30th September		Six months ended 30th September	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
By principal activities				
Property investment	4,276,204	29,578,787	(1,633,138)	(2,538,073)
Hotel operations	10,326,438	12,391,482	(7,285,064)	(5,997,981)
	<u>14,602,642</u>	<u>41,970,269</u>	<u>(8,918,202)</u>	<u>(8,536,054)</u>
Provision for impairment loss on hotel investment			<u>(62,862,213)</u>	–
			<u>(71,780,415)</u>	<u>(8,536,054)</u>
By principal markets				
Hong Kong	4,276,204	29,578,787	(1,633,138)	(2,538,073)
Mainland China	10,326,438	12,391,482	(7,285,064)	(5,997,981)
	<u>14,602,642</u>	<u>41,970,269</u>	<u>(8,918,202)</u>	<u>(8,536,054)</u>
Provision for impairment loss on hotel investment in Mainland China			<u>(62,862,213)</u>	–
			<u>(71,780,415)</u>	<u>(8,536,054)</u>

3. Provision for impairment loss on interest in jointly controlled entities

The provision for impairment loss on the Company's interest in a jointly controlled entity, Hungexpress Investment Limited ("Hungexpress"), was recognised to state such an interest to its recoverable amount, when the charged shares in Hungexpress provided by the Company as security in favour of a bank have been enforced and sold after 30th September 2001.

4. Net loss on disposals of charged investment properties

The net loss on disposals of charged investment properties was arising on the enforcement of the mortgages on certain investment properties of the Group by the banks during the period. The aggregate consideration of the disposals amounted to HK\$65,043,000, which was not being classified as the Group's turnover during the period. The outgoings incurred on the disposals amounted to HK\$817,422. The aggregate carrying value of the investment properties just before their disposals was HK\$65,471,660.

5. Taxation

	(Unaudited)	
	Six months ended	
	30th September	
	2001	2000
	HK\$	HK\$
Hong Kong profits tax		
Company and subsidiaries	1,271,819	–
Share of taxation attributable to associates	41,293	26,609
	<u>1,313,112</u>	<u>26,609</u>

- (a) Hong Kong profits tax is calculated at the rate of 16% (2000: 16%) on the estimated assessable profits of the Group derived from Hong Kong.
- (b) The subsidiary operating in China is subject to income tax at the reduced rate of 15%. No provision for China income tax has been made, as there were no assessable profits of the subsidiary operating in China during the period.
- (c) There is no material unprovided deferred taxation for the period.

6. Loss per share

(a) *Basic*

The calculation of basic loss per share is based on the Group's loss attributable to the shareholders for the period ended 30th September 2001 of HK\$114,371,984 (2000: HK\$62,062,612) and the 1,074,328,367 shares (2000: 1,074,328,367 shares) in issue during the period.

(b) *Diluted*

The share options outstanding during the year had no dilution effect on loss per share.

7. Investment properties

The Directors are of the opinion that the market value of the Group's investment properties as at 30th September 2001 is not materially different from the carrying value of the investment properties. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties in the period.

8. Accounts receivable, utility deposits and prepayments

The Group allows an average credit period ranging from 30-90 days to its trade customers.

Included in accounts receivable, utility deposits and prepayments are trade receivables of HK\$564,901 (31st March 2001: HK\$8,764,651). The ageing analysis of trade receivables was as follows:-

	(Unaudited) 30th September 2001 HK\$	(Audited) 31st March 2001 <i>HK\$</i>
0 – 30 days	243,699	6,625,554
31 – 60 days	28,510	–
61 – 90 days	23,095	–
> 91 days	269,597	2,139,097
	<u>564,901</u>	<u>8,764,651</u>

9. Accounts payable, accrued charges and tenants' deposits

Included in accounts payable, accrued charges and tenants' deposits are trade payables of HK\$24,509,017 (31st March 2001: HK\$22,525,741). The ageing analysis of trade payables was as follows:-

	(Unaudited) 30th September 2001 HK\$	(Audited) 31st March 2001 <i>HK\$</i>
0 – 180 days	2,181,530	5,896,084
> 180 days	22,327,487	16,629,657
	<u>24,509,017</u>	<u>22,525,741</u>

10. Pledge of assets

At 30th September 2001, bank loans of HK\$255,211,980 (31st March 2001: HK\$320,406,814) and bank overdrafts of HK\$77,159,231 (31st March 2001: HK\$71,956,388) were secured by the Group's investment properties of carrying value amounted to HK\$147,900,000 (31st March 2001: HK\$213,371,660). The Group's investment properties with carrying value of HK\$14,250,000 (31st March 2001: HK\$14,250,000) was secured, among other securities, in favour of Sino Earn Holdings Limited ("Sino Earn") for loan facilities granted amounting to HK\$142,618,599 (31st March 2001: HK\$142,618,599). At 30th September 2001, other borrowing of HK\$3,526,551 (31st March 2001: HK\$3,526,551) was secured by the Group's investment properties with carrying value of HK\$2,140,000 (31st March 2001: unsecured).

11. Contingent liabilities

Contingent liabilities in respect of guarantees provided by the Company for outstanding loan facilities utilised by jointly controlled entities amounted to HK\$13,508,350 as at 30th September 2001 (31st March 2001: HK\$58,034,687).

12. Commitments

The Group had future minimum lease payments under non-cancellable operating lease as follows:–

	(Unaudited) 30th September 2001 HK\$	(Restated) 31st March 2001 HK\$
Not later than 1 year	409,800	409,800
Later than 1 year and not later than 5 years	102,450	307,350
	<u>512,250</u>	<u>717,150</u>

13. Related party transactions

During the period, the Group had the following transactions with related parties:–

		(Unaudited) Six months ended 30th September 2001 HK\$	2000 HK\$
Management fee charged by Sino Earn	(a)	–	900,000
Office rental paid to Sino Earn	(b)	<u>204,900</u>	<u>–</u>

- (a) The management fee related to the provision of management function and advice by Sino Earn by nomination of directors to the board of the Company. With effect from 1st April 2001, Sino Earn has agreed to cease charging the Company for any management fee on the management function and advice provided.
- (b) The office rental related to the provision of the existing office premises of the Company by Sino Earn.

In the opinion of the Directors, the above transactions were conducted in the ordinary course of the Group's business.

14. Post balance sheet events

- (a) On 20th November 2001, a letter was issued by solicitors acting for Sino Earn demanding the Company to repay secured loan and interest overdue in the amount of HK\$156,343,709.
- (b) On 23rd November 2001, the Company's charged shares in Hungexpress, representing 50% of its total issued share capital, have been enforced by the chargee bank at a consideration of USD2 million (or approximately HK\$15.6 million).
- (c) On 3rd December 2001, a Writ of Summons (CA 21392/2001) was issued by the Hong Kong Inland Revenue Department against the Group's wholly owned subsidiary, Kai Loong Land Investment Company, Limited, demanding profit tax due in the sum of HK\$5,362,729.
- (d) On 7th December 2001, through Labour Tribunal a claim (LBTC 9744/2001) was filed against the Company by an outgoing staff resigned on 1st August 2000 demanding retrospectively for arrears of wages, annual leave pay and end of year pay outstanding since 1st January 1998 in a total amount of HK\$758,918.