## 1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of the shares in the Company on the Stock Exchange has been suspended since 15th January, 2002.

As explained in note 19, the joint and several provisional liquidators (the "Provisional Liquidators"), Messrs. Cosimo Borrelli and Fan Wai Kuen, Joseph of RSM Nelson Wheeler Corporate Advisory Services Limited, were appointed to Seapower Resources International Limited ("SRI"), a principal associate of the Company, on 31st December, 2001.

The Company is an investment holding company. The Group is principally engaged in investment holding, property holding and hire of motor vehicles.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS



(a) In preparing the financial statements, the Directors have given careful consideration to the future liquidity of the Group in the light of the Group's net liabilities of HK$498 million (2001: HK$286 million) as at 31st March, 2002.

(i) As explained in note 38(a), in December 1998 the Company entered into an agreement (the "Agreement") with China Merchants Bank ("CMB") and with certain third parties (the "Third Parties"). Under the terms of the Agreement, a loan from CMB amounting to 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 HK$456 million (2001: HK$410 million) up to March 31, 2002. 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. In addition, as explained in note 21, CMB has been granted an injunction restricting, among other things, the Group from dealing with the balance of HK$6 million arising from disposal of a property after deducting the mortgage outstanding and related expenses. However, in a separate hearing, it was determined by the High Court of the Hong Kong Special Administrative Region (the "High Court") that the Group has an arguable defense for the case and gave unconditional leave to the Group to defense overriding a request from CMB for summary judgment. The Company is seeking legal advice on further appropriate course of action. However, although the Company intends to contest the case strongly and to pursue its counterclaim vigorously, the outcome of this matter cannot be determined with reasonable certainty at this time.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS** (continued)

(ii) Also, as explained in note 38(b), 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 HK$109 million and interest thereon, being the amount due and payable under the margin facilities granted to the subsidiary without any corporate guarantee from the Group. The Company is currently discussing with its legal advisers as to the appropriate course of action to be taken.

All the Group's principal borrowings, including those with CMB and Peregrine referred to, 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 financial statements are prepared on a going concern basis.



(b) During the year, certain of the Group's investment properties amounting to HK$20,540,000 were seized and disposed by the financial creditors and the proceeds of HK$19,456,000 applied to reduce the balance of the borrowings owed by the Group to these financial creditors. However, the Directors were unable to obtain evidence regarding the selling and related expenses arising on these disposals. Accordingly, the Directors were unable to satisfy themselves as to whether the loss on disposal of such properties of HK$1,084,000 for the year ended 31st March, 2002 and the residual balance of the bank and other borrowings of HK$35,941,000 as at that date were fairly stated.

(c) Included in the consolidated balance sheet were investment properties amounting to HK$3,100,000 and land and building amounting to HK$4,900,000 have been seized by the Group's financial creditors. However, the Directors were unable to ascertain whether these seized properties have been disposed by the financial creditors during the year and the proceeds applied to reduce the associated bank and other borrowings of the Group. Accordingly, the Directors were unable to satisfy themselves as to whether these properties were fairly stated in the consolidated balance sheet as at 31st March, 2002 and as to whether the residual balance of the bank and other borrowings of HK$48,690,000 were fairly stated as at that date.

## 3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants ("HKSA"). Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 4. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosure for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts and disclosure reported for the current or prior periods.

### Leases



SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment had been required. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of the revised SSAP. Comparative amounts and disclosure have been restated in order to achieve a consistent presentation.

### Goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and 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 is held in reserves and will be charged to the consolidated 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 acquisitions prior to 1st April, 2001 will be credited to consolidated 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 on a straight line basis. Negative goodwill arising on acquisitions after 1st April, 2001 is presented as a deduction from assets and will be released to consolidated income statement based on an analysis of the circumstances from which the balance resulted.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.



### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be charged to the consolidated 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.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill or goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Negative goodwill (continued)

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to consolidated income statement at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions of a subsidiary after 1st April, 2001 is presented as deduction from assets and will be released to consolidated income statement based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet as a deduction from assets.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate.



To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful live of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment losses.

### Interests in associates

The consolidated income statement includes the Group's share of post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment losses.

### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of valuation less any subsequent accumulated depreciation and amortisation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

Any revaluation increase arising on revaluation of land and building is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of such assets is charged to the income statement to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that particular asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to deficit.

Depreciation and amortisation are provided to write off the cost or valuation of assets over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|---|---|
| Leasehold land | Over the terms of the relevant leases |
| Buildings | Over the shorter of the terms of the relevant leases or 50 years |
| Furniture, machinery and equipment | 4% to 25% |
| Motor vehicles | 20% to 25% |



The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their estimated useful lives on same basis as assets owned by the Group or, where shorter, the terms of the respective leases.

### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. No depreciation or amortisation is provided for investment properties with an unexpired term, including the renewable period, of more than twenty years.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties (continued)

Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged, respectively, to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance of the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to the disposed properties is transferred to the income statement.

### Investments in securities



Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment losses that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the relevant lease term.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Rental income under operating leases is recognised on a straight line basis over the terms of the relevant leases.

Interest income is recognised on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Sales of properties are recognised on the execution of a binding sales agreement.

### Turnover

Turnover represents rental income received and receivable during the year.



### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

In preparing consolidated financial statements, the financial statements of overseas operations are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### Retirement benefit schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement scheme and Mandatory Provident Fund Scheme ("MPF Scheme").



## 5. SEGMENTAL INFORMATION

The sole principal activity of the Group for two years ended 31st March, 2002 and 2001 is the hiring of motor vehicles in Hong Kong and accordingly, no analyses of business and geographical segment is presented.

## 6. OTHER OPERATING INCOME

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other operating income includes the following items: | | |
| Interest income receivable from: | | |
| SRI | **–** | 263 |
| Others | **36** | 249 |
| Surplus arising on revaluation of investment properties | **–** | 962 |

## 7. OTHER OPERATING EXPENSES

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other operating expenses include the following items: | | |
| Deficit arising on revaluation of investment properties | **6,222** | – |
| Loss on disposal of investment properties and properties held for sales | **2,154** | – |
| Net realised and unrealised holding losses on other investments | **337** | 90,855 |
| Deficit arising on revaluation of land and buildings | **16** | 19 |
| Allowances for bad and doubtful debts | **1,109** | 1,435 |

## 8. LOSS FROM OPERATIONS

| | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| Loss from operations has been arrived at after charging: | | |
| Directors' remuneration | **72** | 1,792 |
| Retirement benefit scheme and MPF Scheme contributions, net of forfeited contributions of HK$142,000 for the year ended 31st March, 2001 (2002: nil) | **(18)** | (3) |
| Other staff costs | **607** | 6,031 |
| Total staff costs | **661** | 7,820 |
| Auditors' remuneration: | | |
| Current year | **336** | 700 |
| Overprovision in prior years | **(544)** | (100) |
| Depreciation and amortisation: | | |
| Owned assets | **1,352** | 2,831 |
| Assets held under finance leases | **240** | 511 |
| Loss on disposal of property, plant and equipment | **990** | – |
| Rental payment for premises under operating leases | **–** | 290 |
| and after crediting: | | |
| Rental income received and receivable under operating leases in respect of: | | |
| Motor vehicles from outsiders | **3,369** | 5,508 |
| Motor vehicles from SRI Group | **68** | 72 |
| Premises from outsiders, net of outgoings of HK$337,000 | **–** | 823 |
| Premises from SRI Group | **–** | 1,787 |
| Other assets from SRI Group | **–** | 354 |
| Gain on disposal of investment properties and properties held for sale | **–** | 962 |
| Gain on disposal of property, plant and equipment | **–** | 478 |
| Management fees receivable from SRI Group | **–** | 2,336 |

## 9. FINANCE COSTS

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest payable on: | | |
| Bank and other borrowings wholly repayable within five years | **69,695** | 68,952 |
| Amount due to SRI Group | **419** | 396 |
| Obligations under finance leases | **36** | 82 |
| | **70,150** | 69,430 |

## 10. EMOLUMENTS OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Particulars of the emoluments of the Directors and the five highest paid individuals are as follows:



### (a) Emoluments of the Directors

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fees: | | |
| Executive Directors | **48** | 48 |
| Non-executive Director | **12** | 12 |
| Independent Non-executive Directors | **12** | 17 |
| | **72** | 77 |
| Other emoluments: | | |
| Salaries and other benefits | | |
| Executive Directors | **–** | 560 |
| Non-executive Director | **–** | 1,155 |
| | **–** | 1,715 |
| | **72** | 1,792 |

The emoluments of the Directors are within the following bands:

| | **Number of Directors** | |
|---|---|---|
| | **2002** | 2001 |
| Nil to HK$1,000,000 | **8** | 7 |
| HK$1,000,001 to HK$1,500,000 | **–** | 1 |

## 10. EMOLUMENTS OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

### (b) Emoluments of five highest paid individuals

None of the five highest paid individuals are Directors of the Group (2001: two Directors), details of whose emoluments are set out above. The emoluments of the five individuals (2001: three individuals) are as follows:

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **570** | 882 |
| Retirement benefit scheme and MPF Scheme contributions | **19** | 54 |
| | **589** | 936 |



The emoluments of the above employees are within the band of Nil to HK$1,000,000.

During the years ended 31st March, 2002 and 2001, no emoluments were paid by the Group to the five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31st March, 2002 and 2001, no Directors waived any emoluments.

## 11. TAXATION

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The taxation comprises: | | |
| Hong Kong Profits Tax | | |
| Current year | **–** | 58 |
| Underprovision in prior years | **–** | 1 |
| Taxation attributable to the Company and its subsidiaries | **–** | 59 |
| Share of taxation on the results of associates | **–** | (148) |
| | **–** | (89) |

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries did not have any estimated assessable profits for the year ended 31st March, 2002.

**11. TAXATION** (continued)

Hong Kong Profits Tax for the year ended 31st March, 2001 was calculated at the rate of 16% on the estimated assessable profits derived from Hong Kong of that year.

Details of unprovided deferred taxation are set out in note 35.

**12. NET LOSS FOR THE YEAR**

Of the Group's net loss for the year of approximately HK$222,307,000 (2001: net loss of HK$261,301,000), a loss of approximately HK$95,410,000 (2001: HK$447,743,000) has been dealt with in the financial statements of the Company.

**13. DIVIDEND**

The Directors of the Company did not recommend the payment of a dividend for both years.



**14. BASIC LOSS PER SHARE**

The calculation of the basic loss per share is based on the net loss for the year of HK$222,307,000 (2001: HK$261,301,000) and on 508,339,764 (2001: 508,339,764) shares in issue during the year.

The computation of diluted loss per share for the year ended 31st March, 2002 does not assume the conversion of the Company's outstanding share options as the effect would be anti-dilutive for the year.

The computation of diluted loss per share for the year ended 31st March, 2001 does not assume the conversion of the Company's outstanding share options and the effect of the share options in SRI as they would be anti-dilutive for the year.

**15. INVESTMENT PROPERTIES**

| | **THE GROUP** |
|---|---|
| | *HK$'000* |
| At beginning of the year | 195,340 |
| Disposals | (26,940) |
| Deficit on revaluation | (17,500) |
| At end of the year | 150,900 |

At 31st March, 2002, a Group's financial creditor took possession of certain charged investment properties with an aggregate carrying value of HK$3,100,000 (2001: HK$8,230,000) which were put into market for sale.

**15. INVESTMENT PROPERTIES** (continued)

The carrying value of the Group's investment properties at the balance sheet date comprises:

| | THE GROUP | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Held in the People's Republic of China (the "PRC") under: | | |
| Long lease | **141,000** | 157,000 |
| Medium-term lease | **6,800** | 8,300 |
| Held in Hong Kong under medium-term lease | **3,100** | 30,040 |
| | **150,900** | 195,340 |



The investment properties of the Group are rented out or to be rented out under operating leases.

The investment properties situated in the PRC were revalued as at 31st March, 2002 by Chesterton Petty Limited, international property consultants, on an open market existing use basis amounting to HK$147,800,000. The deficit arising on revaluation of these assets amounted to HK$17,500,000, of which HK$11,278,000 and HK$6,222,000 have been debited to investment property revaluation reserve and consolidated income statement, respectively.

The Group's investment properties situated in Hong Kong were revalued as at 23rd March, 2001 by Chesterton Petty Limited, international property consultants, on an open market existing use basis amounting to HK$3,100,000. In the opinion of the Directors, the fair value of these properties as at 31st March, 2002 would not be significantly different from the valuation as at 23rd March, 2001.

At 31st March, 2002, the Group was in the process of obtaining Certificate for Housing Ownership in respect of the Group's investment properties amounting to HK$147,800,000 (2001: HK$165,300,000).

At 31st March, 2002, the shares of a subsidiary, which held investment properties amounting to approximately HK$141,000,000 (2001: HK$157,000,000), were pledged to secure banking facilities granted to the Group.

During the year, investment properties of the Group amounting to HK$6,400,000 and HK$20,540,000 were seized and disposed by certain financial creditors and the proceeds amounting to HK$5,330,000 and HK$19,456,000, respectively, applied to reduce part of borrowings due to these financial creditors.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Furniture, machinery and equipment | Motor vehicles | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **THE GROUP** | | | | |
| COST OR VALUATION | | | | |
| At 1st April, 2001 | 14,300 | 36,167 | 9,748 | 60,215 |
| Additions | – | 53 | 1,298 | 1,351 |
| Other disposals | (7,800) | (3,103) | (3,776) | (14,679) |
| Deficit on revaluation | (160) | – | – | (160) |
| At 31st March, 2002 | 6,340 | 33,117 | 7,270 | 46,727 |
| Comprising: | | | | |
| At cost | – | 33,117 | 7,270 | 40,387 |
| At valuation – 2001 | 4,900 | – | – | 4,900 |
| At valuation – 2002 | 1,440 | – | – | 1,440 |
| | 6,340 | 33,117 | 7,270 | 46,727 |
| DEPRECIATION AND AMORTISATION | | | | |
| At 1st April, 2001 | – | 36,147 | 7,568 | 43,715 |
| Provided for the year | 245 | 13 | 1,334 | 1,592 |
| Eliminated on other disposals | (101) | (3,083) | (3,572) | (6,756) |
| Write back on revaluation | (144) | – | – | (144) |
| At 31st March, 2002 | – | 33,077 | 5,330 | 38,407 |
| NET BOOK VALUES | | | | |
| At 31st March, 2002 | 6,340 | 40 | 1,940 | 8,320 |
| At 31st March, 2001 | 14,300 | 20 | 2,180 | 16,500 |

At 31st March, 2002, a Group's financial creditor took possession of certain charged land and buildings with an aggregate carrying value of HK$4,900,000 (2001: Nil) which were put into market for sale.

The Group's land and buildings are situated in Hong Kong and are held on medium-term lease.

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain of the land and buildings of the Group were revalued as at 31st March, 2002 by Chesterton Petty Limited, international property consultants, on an open market existing use basis amounting to HK$1,440,000. The deficit arising on revaluation of these properties amounting to HK$16,000 has been debited to consolidated income statement.

The remaining land and buildings of the Group were revalued as at 23rd March, 2001 by Chesterton Petty Limited, international property consultants, on an open market existing use basis amounting to HK$4,900,000. In the opinion of the Directors, the fair value of these properties as at 31st March, 2002 would not be significantly different from the valuation as at 23rd March, 2001.

At 31st March, 2002, had the Group's land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been HK$1,611,000 (2001: HK$4,507,000).



At 31st March, 2002, the net book value of the property, plant and equipment of the Group includes an amount of HK$605,000 (2001: HK$453,000) in respect of assets held under finance leases.

At 31st March, 2002, certain of the Group's motor vehicles with an aggregate net book value of HK$1,940,000 (2001: HK$2,180,000) are held for rental purposes under operating leases.

At 31st March, 2001, certain of the property, plant and equipment of the Group amounting to HK$14,408,000 were pledged to secure credit facilities granted to the Group.

## 17. LONG-TERM DEPOSITS

| | THE GROUP AND THE COMPANY | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Deposits for acquisition of: | | |
| – an investment property | **15,495** | 15,495 |
| – an investment project | **38,728** | 38,728 |
| – a property development project | **158,830** | 158,830 |
| | **213,053** | 213,053 |
| Less: Allowances | **(213,053)** | (213,053) |
| | **–** | – |

**17. LONG-TERM DEPOSITS** (continued)

The deposits represent the full amount of consideration paid for the acquisition of an investment property and a property development project under the Agreement entered into with CMB and the Third Parties in December 1998 and for an investment project under a separate agreement also in December 1998. The investment property, the property development project and the investment project are all situated in the PRC. However, the Directors have objected to the validity of the Agreement in respect of the investment property and the property development project. The Company is seeking legal advice on further appropriate course of action. However, although the Company intends to contest the case strongly and to pursue its counterclaim vigorously, the outcome of this matter cannot be determined with reasonable certainty at this time.

As provided in the agreement in respect of the investment project, the Group may agree with the Third Parties on the manner of the Group's investment in the project or on a repayment schedule of the amount paid. However, the Group was unable to reach any agreement with the Third Parties up to the date of this report.



Against these background, the Directors have considered it is appropriate to make full provision in respect of the deposits in the financial statements for the years ended 31st March, 2000.

**18. INTERESTS IN SUBSIDIARIES**

| | THE COMPANY | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **482,322** | 482,322 |
| Amounts due from subsidiaries | **590,092** | 592,827 |
| | **1,072,414** | 1,075,149 |
| Less: Impairment loss recognised | **(1,072,414)** | (1,032,581) |
| | **–** | 42,568 |

Particulars of the Company's principal subsidiaries as at 31st March, 2002 are set out in note 40.

During the year, the Directors have reviewed and examined the current operations of the subsidiaries and are of the opinion that the carrying amount of the Company's interests in subsidiaries is not recoverable. Accordingly, an impairment loss of HK$39,833,000 has been recognised in respect of the Company's interests in subsidiaries.

**18. INTERESTS IN SUBSIDIARIES** (continued)

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinions of the Directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

**19. INTERESTS IN ASSOCIATES**

| | THE GROUP | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Share of net assets | – | 126,918 |
| Interests in associates represent: | | |
| Listed shares in Hong Kong | | |
| – Share of net assets | – | 126,918 |
| – Market value at 31st March | – | 69,565 |

At 31st March, 2002 and 2001, the Group held 27.5% and 36% equity interest in SRI, respectively, a principal associate of the Group, which is principally engaged in cold storage warehousing and logistic management and related services, property investment and money lending.

Pursuant to the Orders of the Court of First Instance of the High Court dated 31st December, 2001, Provisional Liquidators were appointed to SRI with effect from 31st December, 2001.

On 19th August, 2002, the Provisional Liquidators announced a conditional agreement dated 22nd June, 2002 as supplemented by an agreement to be entered into among SRI, the Provisional Liquidators and certain investors, regarding a restructuring proposal for SRI ("SRI Restructuring Proposal"). However, in the opinion of the Company's Directors, the SRI Restructuring Proposal may not be successfully implemented and completed.

## 19. INTERESTS IN ASSOCIATES (continued)

Extracts from the consolidated operating results and financial position of SRI for the year ended 31st March, 2001, which are based on its audited financial statements (note) below, are as follows:

Results for the year ended 31st March, 2001:

| | HK$'000 |
|---|---|
| Turnover: | |
| Continuing operations | 193,974 |
| Discontinued operations | 7,136 |
| | 201,110 |
| Loss from operations | (105,888) |
| Finance costs | (121,902) |
| Loss on disposal of subsidiaries | (10,847) |
| Share of results of associates | 362 |
| Loss before taxation | (238,275) |
| Loss after taxation and minority interests | (237,868) |
| Loss before taxation attributable to the Group | (87,138) |

Financial position as at 31st March, 2001:

| | HK$'000 |
|---|---|
| Non-current assets | 1,624,429 |
| Current assets | 76,187 |
| Current liabilities | (1,343,340) |
| Minority interests | (4,303) |
| Non-current liabilities | (414) |
| Net assets | 352,559 |
| Net assets attributable to the Group | 126,918 |

**19. INTERESTS IN ASSOCIATES** (continued)

*Note:* The auditors' report of SRI for the year ended 31st March, 2001 is qualified in respect of limitations in scope relating to a loss on disposal of SRI's subsidiary of approximately HK$3 million and related provision on the outstanding receivable arising from the disposal of approximately HK$27 million and in respect of the revaluation of properties held for development of approximately HK$54 million.

No extract for the consolidated operating results and financial position of SRI for the year ended 31st March, 2002 were presented as no such financial information is available.

**20. OTHER INVESTMENTS**

| | THE GROUP | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Listed shares | | |
| Hong Kong | – | 1,199 |
| Overseas | – | 467 |
| Unlisted overseas shares | – | 2 |
| | – | 1,668 |
| Market value of listed securities at 31st March | – | 1,666 |
| Carrying amount analysed for reporting purposes as: | | |
| Non-current | – | 469 |
| Current | – | 1,199 |
| | – | 1,668 |

**21. SHORT – TERM RECEIVABLES**

THE GROUP

As explained in note 38(a), CMB has been granted an injunction restricting the Group from dealing with the remaining sales proceeds balance of HK$6,483,000 (2001: HK$6,483,000) arising from disposal of a property after deducting the mortgage outstanding and related expenses without the approval of the High Court. At the balance sheet date, this amount was put under the custody of the High Court.

## 22. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivable (net of allowance for bad and doubtful debts) with the aged analysis as follows:

| | THE GROUP | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | | |
| 0 – 30 days | **145** | 309 |
| 31 – 60 days | **99** | 172 |
| More than 60 days | **36** | 153 |
| | **280** | 634 |
| Other receivables | **–** | 1,579 |
| | **280** | 2,213 |



## 23. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payable with aged analysis as follows:

| | THE GROUP | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables | | |
| 0 – 30 days | **–** | 27 |
| 31 – 60 days | **13** | 25 |
| More than 60 days | **13** | 2 |
| | **26** | 54 |
| Other payables | **116,352** | 63,224 |
| | **116,378** | 63,278 |

## 24. AMOUNT DUE TO SRI GROUP

Particulars of the amount due to SRI Group are as follows:

| | | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|---|
| | Nature | **Balance at 31.3.2002** | Balance at 31.3.2001 | **Balance at 31.3.2002** | Balance at 31.3.2001 |
| | | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amount due to SRI Group: | | | | | |
| Interest bearing | *Secured (note)* | **1,655** | 1,655 | **–** | – |
| | *Unsecured* | **4,465** | 4,465 | **4,465** | 4,465 |
| Interest-free | *Unsecured* | **1,500** | 932 | **813** | 383 |
| | | **7,620** | 7,052 | **5,278** | 4,848 |



*Note:* The amount represents secured loans granted by Seapower Finance Limited, a subsidiary of SRI and a licensed money lender whose principal activity is money lending. The loans bear interest at prevailing market rate and are secured by collateral of certain of the Group's investment in an associate.

The amount due to SRI Group has no fixed terms of repayment.

## 25. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, interest-free (2001: borne interest at 2% above Hong Kong prime rate per annum) and have no fixed terms of repayment.

## 26. OBLIGATIONS UNDER FINANCE LEASES

| | THE GROUP | | | |
|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | **2002** | 2001 | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts payable under finance leases due within one year | **359** | 289 | **328** | 226 |
| Less: Future finance charges | **31** | 63 | **–** | – |
| Present value of lease obligations due for settlement within one year | **328** | 226 | **328** | 226 |



It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is about 3 years. For the year ended 31st March, 2002, the average effective borrowing rate was at prime rate plus 0.5% (2001: prime rate plus 0.5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

## 27. BANK AND OTHER BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Bank and other borrowings comprise: | | | | |
| Bank loans | **354,260** | 354,260 | **354,260** | 354,260 |
| Bank overdrafts | **53,228** | 79,499 | **35,941** | 39,097 |
| Other borrowings | **131,320** | 129,495 | **–** | – |
| | **538,808** | 563,254 | **390,201** | 393,357 |
| Analysed as: | | | | |
| Secured | **262,028** | 286,474 | **113,421** | 116,577 |
| Unsecured | **276,780** | 276,780 | **276,780** | 276,780 |
| | **538,808** | 563,254 | **390,201** | 393,357 |

All bank and other borrowings are repayable within one year.

## 28. SHARE CAPITAL

| | **Number of shares** | **Value** |
|---|---|---|
| | | *HK$'000* |
| Authorised: | | |
| At 1st April, 2000 and 31st March, 2001, ordinary shares of HK$0.10 each | 800,000,000 | 80,000 |
| Capital Reduction | 7,200,000,000 | – |
| At 31st March, 2002, ordinary shares of HK$0.01 each | 8,000,000,000 | 80,000 |
| Issued and fully paid: | | |
| At 1st April, 2000 and 31st March, 2001, ordinary shares of HK$0.10 each | 508,339,764 | 50,834 |
| Capital Reduction | – | (45,751) |
| At 31st March, 2002, ordinary shares of HK$0.01 each | 508,339,764 | 5,083 |

**28. SHARE CAPITAL** (continued)

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; and

(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 rank 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 was published in Bermuda on 21st November, 2001 and the Stock Exchange has granted the listing of, and permission to deal in, the shares. 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.

## 29. SHARE OPTION SCHEMES

The share options granted by the Company to the Directors and eligible employees of the Group to subscribe for shares in the Company under the share option scheme of the Company adopted on 30th September, 1999 are as follows:

| | Number | Value |
|---|---|---|
| | | *HK$'000* |
| Balance in issue as at 1st April, 2000 and 31st March, 2001 | 50,580,000 | 11,633 |
| Lapsed during the year | (1,220,000) | (281) |
| Balance as at 31st March, 2002 | 49,360,000 | 11,352 |

The options were granted on 22nd November, 1999 at a consideration of HK$1 for each grantee and can be exercised at any time during the period of four and a half years, commencing six months after their respective dates of acceptance at an exercise price of HK$0.23 per share, subject to adjustment.

No options were exercised by any share option holder since the dates of the grant of respective share options and up to 31st March, 2002.

## 30. RESERVES

| | Share premium | Capital redemption reserve | Special reserve | Capital reserve | Investment property revaluation reserve | Asset revaluation reserve | Translation reserve | Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **THE GROUP** | | | | | | | | | |
| 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 an associate | – | – | – | – | – | (623) | – | 623 | – |
| Share of post-acquisition reserve movements of associates | – | – | – | (1) | – | (85,820) | (4,062) | – | (89,883) |
| Realised on disposal of an associate | – | – | – | 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 of properties | – | – | – | – | 11,278 | (9,416) | – | – | 1,862 |
| Net loss for the year | – | – | – | – | – | – | – | (261,301) | (261,301) |
| At 31st March, 2001 and 1st April, 2001 | 414,978 | 115 | 168,788 | 49,769 | 11,278 | 218,207 | (2,690) | (1,196,929) | (336,484) |
| Effect of Capital Reduction *(note 28)* | (414,978) | – | – | – | – | – | – | 460,729 | 45,751 |
| Share of post – acquisition reserve movements of associates | – | – | – | – | – | 64 | 1,376 | – | 1,440 |
| Realised on disposal of an associate | – | – | – | 4,836 | – | 14,431 | 860 | – | 20,127 |
| Deficit arising on revaluation of investment properties | – | – | – | – | (11,278) | – | – | – | (11,278) |
| Realised on disposal of properties | – | – | – | – | – | (8,968) | – | 8,968 | – |
| Net loss for the year *(note 12)* | – | – | –– | – | – | – | – | (222,307) | (222,307) |
| At 31st March, 2002 | – | 115 | 168,788 | 54,605 | – | 223,734 | (454) | (949,539) | (502,751) |
| Attributable to: | | | | | | | | | |
| The Company and its subsidiaries | – | 115 | 168,788 | 18,105 | – | 4,464 | 4,236 | (411,519) | (215,811) |
| Associates | – | – | – | 36,500 | – | 219,270 | (4,690) | (538,020) | (286,940) |
| | – | 115 | 168,788 | 54,605 | – | 223,734 | (454) | (949,539) | (502,751) |

**30. RESERVES** (continued)

| | Share premium | Capital redemption reserve | Contributed surplus | Deficit | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **THE COMPANY** | | | | | |
| At 1st April, 2000 | 414,978 | 115 | 419,212 | (855,069) | (20,764) |
| Net loss for the year | – | – | – | (447,743) | (447,743) |
| At 31st March, 2001 and 1st April, 2001 | 414,978 | 115 | 419,212 | (1,302,812) | (468,507) |
| Effect of Capital Reduction *(note 28)* | (414,978) | – | – | 460,729 | 45,751 |
| Net loss for the year *(note 12)* | – | – | – | (95,410) | (95,410) |
| At 31st March, 2002 | – | 115 | 419,212 | (937,493) | (518,166) |



The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of Company's share capital issued for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus account, if:

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

There were no reserves available for distribution to the shareholders of the Company as at 31st March, 2002 and 2001.

## 31. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before taxation | **(222,739)** | (261,390) |
| Interest income | **(36)** | (512) |
| Interest expenses | **70,114** | 69,348 |
| Interest on obligations under finance leases | **36** | 82 |
| Depreciation and amortisation | **1,592** | 3,342 |
| Share of results of associates | **100,738** | 88,122 |
| Loss on partial disposal of an associate | **37,338** | 5,502 |
| Deficit (surplus) arising on revaluation of investment properties | **6,222** | (962) |
| Loss (gain) on disposal of investment properties and properties held for sale | **2,154** | (962) |
| Loss (gain) on disposal of property, plant and equipment | **990** | (478) |
| Net realised and unrealised holding losses on other investments | **337** | 90,855 |
| Deficit arising on revaluation of land and buildings | **16** | 19 |
| Gain on disposal of subsidiaries | **–** | (258) |
| Increase in short-term receivables | **–** | (6,483) |
| Increase in trade and other receivables | **1,933** | 1,296 |
| Decrease in amount due from SRI Group | **–** | 3,397 |
| Increase in trade and other payables | **(4,361)** | 48 |
| Decrease in amount due to SRI Group | **149** | (6,060) |
| Net cash outflow from operating activities | **(5,517)** | (15,094) |

## 32. DISPOSAL OF SUBSIDIARIES

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Net assets disposed of: | | |
| Trade and other receivables | – | 35 |
| Amounts due from group companies | – | 270 |
| Taxation recoverable | – | 1 |
| Bank balances and cash | – | 10 |
| Trade and other payables | – | (11) |
| | – | 305 |
| Capital reserve realised | – | (258) |
| Gain on disposal of subsidiaries | – | 258 |
| | – | 305 |
| Satisfied by: | | |
| Increase in amount due from SRI Group | – | 305 |

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Bank balances and cash disposed of | – | (10) |

The subsidiaries disposed of during the year ended 31st March, 2001 did not make a significant contribution to the net cash flow or results of the Group for the year.

## 33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Amounts due to associates | Bank and other borrowings | Obligations under finance leases | Minority interests |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st April, 2000 | 2,221 | 392,481 | 1,346 | 432 |
| Bank and other borrowings interest expenses converted into loan principal | – | 13,558 | – | – |
| Transferred to cash and cash equivalents | – | (13,558) | – | – |
| Repayments during the year | (5) | (17,771) | (1,120) | – |
| At 31st March, 2001 and 1st April, 2001 | 2,216 | 374,710 | 226 | 432 |
| Inception of finance leases *(note 34(a))* | – | – | 486 | – |
| Repayments during the year | – | – | (384) | – |
| Bank and other borrowings interest expenses converted into loan principal | – | 12,234 | – | – |
| Sale proceeds on partial disposal of the Group's interest in an associate and investment properties applied to reduce bank and other borrowings *(note 34(b) and (c))* | – | (35,195) | – | – |
| Transferred to cash and cash equivalents | – | 13,180 | – | – |
| Share of loss by minority shareholders | – | – | – | (432) |
| At 31st March, 2002 | 2,216 | 364,929 | 328 | – |

**34. MATERIAL NON-CASH TRANSACTIONS**

(a) During the year, the Group entered into financial lease arrangement in respect of assets with a total capital value at the inception of the leases of HK$486,000.

(b) During the year, the sale proceeds on partial disposed of the Group's interest in an associate of HK$10,409,000 were applied to reduce the associated bank and other borrowings of the Group.

(c) During the year, the sale proceeds on disposal of investment properties of HK$24,786,000 were applied to reduce the associated bank and other borrowings of the Group.

**35. UNPROVIDED DEFERRED TAXATION**

The major components of the net deferred tax (charge) credit of the Group not recognised for the year are as follows:



| | THE GROUP | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Tax effect of timing differences arising from: | | |
| Tax losses arising | **(132)** | 4,343 |
| Excess of depreciation over tax allowances | **14** | (359) |
| Disposal of subsidiaries | **–** | 5 |
| | **(118)** | 3,989 |

At the balance sheet date, the major components of the net potential deferred tax asset (liability) of the Group not recognised in the financial statements are as follows:

| | THE GROUP | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Tax effect of timing differences attributable to: | | |
| Unutilised tax losses | **13,572** | 13,704 |
| Excess of tax allowances over depreciation | **(308)** | (322) |
| | **13,264** | 13,382 |

**35. UNPROVIDED DEFERRED TAXATION** (continued)

No provision for deferred taxation has been made in the financial statements in respect of the surplus or deficit arising on the revaluation of properties of the Group and unrealised holding gain or loss on other investments as, in the opinion of the Directors, any profit or loss arising on the disposal of these assets is capital in nature and would not be subject to taxation. Accordingly, the revaluation increase or decrease in respect of these properties and unrealised holding gain or loss on other investments do not constitute a timing difference for tax purposes. In addition, no provision for deferred taxation has been made in respect of the surplus or deficit arising on the revaluation of properties outside Hong Kong as the amount involved is not significant.

The Company did not have any significant unprovided deferred taxation in respect of timing differences arising during the year or as at the balance sheet date.

**36. CONTINGENT LIABILITIES**

| | **THE GROUP** | | | | **THE COMPANY** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2002** | | 2001 | | **2002** | | 2001 | |
| | **Facilities granted** | **Amount utilised** | Facilities granted | Amount utilised | **Facilities granted** | **Amount utilised** | Facilities granted | Amount utilised |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Guarantees given to financial institutions in respect of credit facilities granted to: | | | | | | | | |
| Subsidiaries | **–** | **–** | – | – | **114,785** | **32,704** | 114,314 | 60,081 |
| Associates | **38,660** | **38,660** | 38,660 | 38,660 | **38,660** | **38,660** | 38,660 | 38,660 |
| | **38,660** | **38,660** | 38,660 | 38,660 | **153,445** | **71,364** | 152,974 | 98,741 |

## 37. OPERATING LEASE COMMITMENTS

(a) The Group as lessee

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Minimum lease payments paid by the Group under operating leases in respect of premises during the year | **–** | 290 |

At the balance sheet date, the Group and the Company did not have any significant outstanding non-cancellable operating leases.

(b) The Group as lessor



| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental income earned during the year in respect of: | | |
| – Motor vehicles | **3,437** | 5,580 |
| – Premises | **–** | 2,610 |
| – Other assets | **–** | 354 |
| | **3,437** | 8,544 |

At the balance sheet date, the Group and the Company did not have any significant outstanding lease commitments.

## 38. LITIGATION

(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 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 HK$456 million (2001: HK$410 million) up to 31st March, 2002. 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.

**38. LITIGATION** (continued)

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

(1) The Group from dealing with the balance of HK$6 million (2001: 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 Company, Seapower Consortium Company Limited, from disposing or dealing with or diminishing the value of its assets up to the value of US$10 million.

As at 31st March, 2002, the amount of 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 against the Group. 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 HK$109 million and interest thereon, being the amount due and payable under the facilities granted pursuant to a margin agreement dated 4th September, 1997 entered into between Peregrine and the subsidiary without any corporate guarantee from 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 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.

**38. LITIGATION** (continued)

(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 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. The amounts have been fully provided for in the accounts in previous years. In the opinion of the Directors, the outcome of this litigation cannot be determined with reasonable certainty at this time.

Other than the above, in the opinion of the Directors, as at 31st March, 2002, the Group and the Company did not have any significant outstanding claims, counterclaims and threatened litigations with other parties.



**39. RELATED PARTY TRANSACTIONS**

(a) The Group had the following transactions with related parties:

| | | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|---|
| | *Notes* | **2002** | 2001 | **2002** | 2001 |
| | | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest expenses payable to SRI Group | *(i)* | **419** | 396 | **316** | 227 |
| Management fee income receivable from SRI Group | *(ii)* | **–** | 2,336 | **–** | – |
| Parking fee payable to SRI Group | *(iii)* | **204** | 204 | **–** | – |
| Rental income receivable from SRI Group | *(iii)* | **68** | 2,213 | **–** | – |
| Sales of property, plant and equipment to SRI Group | *(iv)* | **–** | 145 | **–** | – |
| Sales of subsidiaries to SRI Group | *(iv)* | **–** | 305 | **–** | – |

*Notes:*

(i) Interest expenses were charged at prevailing market rate.

(ii) Management fee was based on time spent and cost incurred.

(iii) Parking fee and rental income were determined based on market rates and floor area.

(iv) Sales of property, plant and equipment and subsidiaries were carried out at terms determined and agreed by both parties.

## 39. RELATED PARTY TRANSACTIONS (continued)

(b) The Group's banking facilities as at 31st March, 2002 were guaranteed by a Director of the Company to the extent of HK$55,000,000 (2001: HK$55,000,000).

Details of balances with related parties are set out in the consolidated balance sheet on page 23 and its accompanying notes.

Details of contingent liabilities in respect of guarantees given to related parties at the balance sheet date are set out in note 36.

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st March, 2002 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital | Percentage of issued share capital held by the Company*/ subsidiaries % | Attributable to the Group % | Principal activities |
|---|---|---|---|---|---|
| China Rich Investments Limited | British Virgin Islands/PRC | US$100 ordinary shares | 100 | 100 | Property holding |
| Felcasa International Limited | British Virgin Islands | US$1 ordinary share | 100 | 100 | Investment holding |
| Fordit Limited | Hong Kong | HK$100 ordinary shares<br>HK$2 deferred shares *(note)* | 100 | 100 | Investment holding |
| Pan's Motors Limited | Hong Kong | HK$50,000 ordinary shares<br>HK$500,000 deferred shares *(note)* | 100 | 100 | Property holding |
| Seapower Consortium Company Limited | Hong Kong | HK$1,000 ordinary shares | 100 | 100 | Investment holding |
| Seapower International (B.V.I.) Limited | British Virgin Islands | HK$1,000 ordinary shares | 100* | 100 | Investment holding |
| Seapower International Investments Limited | British Virgin Islands/PRC | US$1 ordinary share | 100 | 100 | Property holding |
| Seapower Trading Company Limited | Hong Kong | HK$5,000,000 ordinary shares | 100 | 100 | Property holding |
| Sparkcom Limited | Hong Kong | HK$2 ordinary shares | 100 | 100 | Investment holding |
| Sun Shine Express Limited | Hong Kong | HK$400,000 ordinary shares | 100 | 100 | Vehicles trading |
| Tak Sum Development Limited | Hong Kong | HK$20 ordinary shares | 100 | 100 | Property holding |
| Treasure Victory Properties Limited | Hong Kong | HK$2 ordinary shares | 100 | 100 | Property holding |
| Trinity Rent-A-Car Limited | Hong Kong | HK$13,000,000 ordinary shares | 100 | 100 | Car rental |
| Wing Cheong Loong Company Limited | Hong Kong | HK$2 ordinary shares | 100 | 100 | Money lending |

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

*Note:* The deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

The above tables list the subsidiaries of the Company which, in the opinion of the Directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors of the Company, result in particulars of excessive length.