

# PROVISIONAL LIQUIDATORS' REPORT

The joint and several provisional liquidators of the Company (the "Provisional Liquidators") present their report and the audited financial statements for the year ended 31 March 2003.

The Provisional Liquidators, as agents of the Company, prepare this report in accordance with the disclosure requirements of the Companies Ordinance. The Provisional Liquidators are responsible for the accuracy and completeness of the contents of this report and the audited financial statements for the year ended 31 March 2003 in relation to (i) the affairs of the Group after the appointment of the Provisional Liquidators; and (ii) the preparation of the contents of this report and the audited financial statements for the year ended 31 March 2003 on the basis of the books and records made available to the Provisional Liquidators.

In light of the incomplete books and records maintained by the Group prior to the appointment of the Provisional Liquidators (and which form the basis of the contents in this report and the audited financial statements for the year ended 31 March 2003). The Provisional Liquidators are unable to give an unqualified representation as to (i) the completeness and accuracy of the recording of transactions of the Group prior to their appointment; and (ii) whether the financial statements present a true and fair view of the Group's operation for the year ended 31 March 2003 and the financial status as at 31 March 2003.

## RESTRUCTURING OF THE GROUP

On 25 April 2003, the Company and the Provisional Liquidators entered into a legally binding restructuring agreement with an investor, HC Technology Capital Company Limited ("Investor") and two secured creditors of the Company, Sino Earn Holdings Limited ("Sino Earn") and Jian Xing Finance Limited ("Jian Xing") ("Restructuring Agreement"). The Restructuring Agreement sets out the terms and conditions in relation to, among others, a capital restructuring, a debt restructuring, subscription of shares of the Company and a reorganisation of the Group ("Proposed Restructuring"). The Proposed Restructuring, if implemented, will provide the Company with the necessary working capital and financial resources to revitalise its business operations. The Restructuring Agreement sets out certain conditions to be satisfied in order to complete the Proposed Restructuring.

On 29 April 2003, a resumption proposal for the Company ("Resumption Proposal") was submitted to The Stock Exchange of Hong Kong Limited ("Stock Exchange"). On 13 May 2003, the Stock Exchange approved the Resumption Proposal and the resumption of trading of the Company's securities on the Stock Exchange is subject to conditions imposed by the Stock Exchange.

The Provisional Liquidators consider that the Proposed Restructuring can be completed in accordance with its terms ("Completion").

As explained in note 2(a) to the financial statements, the financial statements have been prepared on a going concern basis on the basis that the terms set out in the Restructuring Agreement will be implemented in full upon Completion.

## INCOMPLETE BOOKS AND RECORDS

In light of the incomplete books and records maintained by the Company and its subsidiaries, the Provisional Liquidators are unable to identify all the material factors underlying the Group's results and financial position and therefore are unable to give an unqualified representation as to whether the following analyses in respect of, among others, the operations, liquidity and financial resources of the Group during 2003 reflect a true and fair view of the Group.

# PROVISIONAL LIQUIDATORS' REPORT

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are investment holding, hotel operation and property investment. Details of the principal activities of the subsidiaries, jointly controlled entities and associates are set out in notes 14, 15 and 16 to the financial statements respectively.

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operation for the year ended 31 March 2003 is set out in note 5 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 17. For the year ended 31 March 2003, the Group incurred a loss from operating activities after taxation of HK\$75,229,219, as compared to HK\$175,697,849 (as restated) for the same period last year. Turnover for the year was HK\$19,158,328, compared to HK\$27,442,409 in last year.

The basic loss per share for the year was HK7.0 cents, against a basic loss per share of HK16.3 cents (as restated) in 2002.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the statement of net assets / liabilities of the Group for the last five financial years is set out on page 58.

## MAJOR CUSTOMERS AND SUPPLIERS

No major customers and suppliers analyses are disclosed as in the opinion of the Provisional Liquidators, the costs of preparing this information would exceed the value of this information to the members of the Company.

## BUSINESS REVIEW

The main business activities of the Group in the past include investment holding, property investment in Hong Kong and hotel operation in PRC.

The Group's financial position began to deteriorate following the Asian financial crisis and a severe downturn in the property market in Hong Kong, leading to a substantial decline in rental income and diminution in the value of the Group's property investment.

The Group's operations in Hong Kong and the PRC have been adversely constrained for some time and trading of the Company's shares on the Stock Exchange has been suspended since 16 February 2001 as a result of the appointment of receivers and managers to various properties owned by the Group. The suspension of trading of the Company's share remains in place.

The Group is recently engaged in investment holding, property investment in Hong Kong and hotel operation in PRC.

# PROVISIONAL LIQUIDATORS' REPORT

## LIQUIDITY AND FINANCIAL RESOURCES

Net cash outflow from operating activities for the year was HK\$61,471,325 as compared to a net cash outflow of HK\$16,607,089 in the previous year. Cash and cash equivalents at the year end amounted to HK\$2,504,544 (2002: HK\$1,935,801).

The Group's debt ratio measured by the total liabilities over the total assets was 4.54 as at 31 March 2003, compared to 2.32 as at 31 March 2002. The Group has been unable to meet most of the scheduled repayments due to its banks and creditors since August 1999, and all of the Group's credit facilities were either frozen or due for repayment.

## CAPITAL STRUCTURE

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong dollars and Renminbi. As there is no significant fluctuation in exchange rate between the Hong Kong dollars and Renminbi, the Group's exposure to exchange rate risk is not material.

During the year, the Provisional Liquidators are not aware of any evidence which indicates that the Group engaged in any derivative activities and did not commit to any financial instruments to hedge its balance sheet exposures.

Funding and treasury policies of existing subsidiaries in the Group are centrally managed and controlled by the top management in Hong Kong.

All the bank borrowings of the Group are at default rate since the Group was unable to meet most of the scheduled repayments starting from August 1999.

## PROSPECTS

The Proposed Restructuring, if implemented, will provide the Company with the necessary working capital and financial resources to revitalise its business operations and to compromise and discharge of all its indebtedness (except the indebtedness owed to the Investor for the purpose of the Proposed Restructuring) through the compromise with Sino Earn and Jian Xing and a scheme of arrangement under section 166 of the Companies Ordinance of Hong Kong.

The Proposed Restructuring is the only viable proposal available to the Company. If it is not implemented, the Company will be wound up and the shareholders of the Company will not receive any return for their investment in the Company. On this basis, the Provisional Liquidators consider that the Proposed Restructuring serves the best interests of both the creditors and shareholders of the Company.

The Provisional Liquidators consider that the Proposed Restructuring can be completed in accordance with its terms.

# PROVISIONAL LIQUIDATORS' REPORT

## **FIXED ASSETS**

Details of the movements in fixed assets of the Group and of the Company during the year are set out in note 13 to the financial statements.

## **PROPERTY INTERESTS HELD**

Details of the property interests held by the Group are set out on pages 61 to 63.

## **SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES**

Particulars of the Company's subsidiaries, jointly controlled entities and associates as at 31 March 2003 are set out in notes 14, 15 and 16 to the financial statements respectively.

## **SHARE CAPITAL**

Details of the share capital of the Company are set out in note 24 to the financial statements.

## **RESERVES**

Movements in the reserves of the Group and of the Company during the year are set out on page 19 and in note 26 to the financial statements respectively.

## **BANK AND OTHER BORROWINGS**

Details of the Group's and the Company's borrowings as at 31 March 2003 are set out in note 20 to the financial statements.

## **CAPITALISED BORROWING COSTS**

No borrowing costs were capitalised during the year (2002: HK\$Nil).

## **RELATED PARTY TRANSACTIONS**

Details of related party transactions are set out in note 32 to the financial statements.

## **POST BALANCE SHEET EVENTS**

Details of significant post balance sheet events are set out in note 33 to the financial statements.

## **SHARE OPTION SCHEME**

Details of the Company's share option scheme are set out in note 25 to the financial statements.

# PROVISIONAL LIQUIDATORS' REPORT

## DIRECTORS

The directors of the Company during the year and up to the date of this report are:

### Executive directors:

Mr HUANG Jian Guan (*Chairman*)

Ms MA Xiao Hua

Mr WANG Hai Min

Mr SO Sik

Ms LI Huiru

(appointed on 22 May 2002)

Ms PAK Siu Pun, Ulanda

(appointed on 7 June 2002)

Mr CHAN Kai Nang

(resigned on 13 May 2002)

Ms ZHANG Xiao Ying

(resigned on 3 July 2002)

Mr DU Zhen

(appointed on 22 May 2002 and resigned on 25 July 2002)

### Independent non-executive directors:

Mr LAU Kin Hon

Mr LAU Yiu Kit

The directors of the Company, including the executive and independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with clauses 92 and 101 of the Company's Articles of Association.

The powers of the directors of the Company ceased on the appointment of the Provisional Liquidators. It is the intention of the Investor that all existing directors will resign and new directors will be appointed upon Completion. The composition of the new board of directors has not yet been decided at this stage.

Upon Completion, the Investor will carry out a detailed operational review of the Company and its subsidiaries and rationalisation of operations which may include a reduction in number of management and other staff.

## DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

The Provisional Liquidators are not aware of any material contracts in relation to the Company's business to which the Company or its subsidiaries were parties and in which a director of the Company had a material beneficial interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

# PROVISIONAL LIQUIDATORS' REPORT

## DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Provisional Liquidators are not aware of any evidence which indicates that the Company or its subsidiaries at any time during the year was a party to any arrangements to enable the directors or the chief executives of the Company or their respective spouse or children under 18 years of age of any such director or chief executive to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## PARTICULARS OF SHARES HELD BY DIRECTORS, CHIEF EXECUTIVES AND ASSOCIATES

As at 31 March 2003, the interests of the directors of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of director	Number of shares of HK\$0.125 each in the share capital of the Company (the "Shares")			% of total issued shares
	Personal interests	Corporate interests	Total	
Mr SO Sik	–	248,897,760 (a)	248,897,760 (a)	23.17
Mr WANG Hai Min	200,000	–	200,000	0.02

Note:

- (a) Mr SO Sik is interested in 248,897,760 Shares by virtue of his ownership of 100% of the issued share capital of Pelota Worldwide Limited (in liquidation) ("Pelota (in liquidation)") which beneficially holds these 248,897,760 Shares. Pelota was put into liquidation on 8 November 2000 by a bank in Hong Kong.

Save as disclosed herein, as at 31 March 2003, the Provisional Liquidators are not aware of any of the directors or the chief executive of the Company who were beneficially interested in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance, or which were required to be recorded in the register maintained pursuant to Section 29 of the SDI Ordinance or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed herein, the Provisional Liquidators are not aware of any evidence which indicates that the Company or any of its associated corporations granted to any director or chief executive of the Company, or their respective spouse or children under 18 years of age of any such director or chief executive, any right to subscribe for equity or debt securities of the Company or any of its associated corporations, nor any exercise of such right by such persons during the year under review.

# PROVISIONAL LIQUIDATORS' REPORT

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 March 2003, the register of substantial shareholders maintained pursuant to Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following parties with interests representing 10% or more of the issued share capital of the Company:

Name of shareholder	Number of shares held	% of total issued shares
Sino Earn Holdings Limited ("Sino Earn")	344,568,000 (a)	32.07
Fujian Huaxing Trust & Investment Company ("FHTI")	344,568,000 (a)	32.07
Fujian Huaxing Industrial Company ("FHIC")	344,568,000 (a)	32.07
Pelota (in liquidation)	248,897,760 (b)	23.17

Notes:

- (a) Sino Earn beneficially holds 344,568,000 Shares. Each of FHTI and FHIC is deemed to be interested in the 344,568,000 Shares by virtue of their being beneficially interested in 30% and 70% of the issued share capital of Sino Earn respectively. Both FHTI and FHIC are state-owned corporations in the PRC.
- (b) Pelota (in liquidation) beneficially holds 248,897,760 Shares. The interests of Pelota (in liquidation) are directly interests held by Mr SO Sik as disclosed above in the paragraph under the heading "Particulars of shares held by directors, chief executives and associates".

Save as disclosed above, the Provisional Liquidators are not aware of any other interest or right recorded in the register maintained pursuant to Section 16(1) of the SDI Ordinance as at 31 March 2003.

## MANAGEMENT CONTRACTS

The Company entered into an office management fee agreement with Sino Earn, the substantial shareholder of the Company, for the sharing of office premises and utilities with the Company. The management agreement remained effective during the year until 9 January 2003. The management fee charged by Sino Earn for the year amounted to HK\$307,350 (2002: HK\$409,800).

Save as disclosed above, the Provisional Liquidators are not aware of any other contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries entered into or subsisted during the year.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Provisional Liquidators are not aware of any evidence which indicates that the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

# PROVISIONAL LIQUIDATORS' REPORT

## PENSION SCHEME

With effect from 1 December 2000, the Group has operated a mandatory provident fund scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, each of the employer and its employees are required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a statutory maximum cap of HK\$1,000 per month. Details of the MPF Scheme contributions of the employees, which have been dealt with in the consolidated income statement of the Group for the year ended 31 March 2003, are set out in note 7 to the financial statements.

Employees of the Group in the PRC are covered under a local statutory retirement insurance policy provided by local government. Employer and employees are required to contribute a designated percentage of monthly salary to the retirement insurance policy. The only obligation of the Group with respect to the retirement schemes is to make the required contributions under the schemes. Such contributions are charged to the income statement when incurred.

## STAFF

As at 31 March 2003, the Group's total number of employees was approximately 310, with most of them working in PRC. Remuneration packages are generally structured by referring to the market terms and individual merits, which include mandatory provident fund scheme and medical insurance besides contracted salaries.

## COMPLIANCE WITH PRACTICE NOTE 19 OF THE LISTING RULES

Details of advances, financial assistance and guarantees provided by the Group to its jointly controlled entities disclosed pursuant to Practice Note 19 of the Listing Rules are set out on pages 59 to 60.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

## AUDITORS

The auditors of the Company for financial years ended 31 March 2000, 31 March 2001 and 31 March 2002 were Messrs. PricewaterhouseCoopers, Moores Rowland and HLB Hodgson Impey Cheng respectively.

Messrs. Nexia Charles Mar Fan & Co. were appointed as auditors of the Group in 2003 in place of Messrs. HLB Hodgson Impey Cheng who resigned during the year.

The Company's auditors, Messrs. Nexia Charles Mar Fan & Co. retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the Annual General Meeting.

For and on behalf of  
**Fujian Group Limited**  
**(Provisional Liquidators Appointed)**  
**Cosimo Borrelli**  
**Fan Wai Kuen**  
*Joint & Several Provisional Liquidators*  
*without personal liability*

Hong Kong, 4 September 2003