

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and principal accounting policies

- (a) Messrs. Cosimo Borrelli and Fan Wai Kuen of RSM Nelson Wheeler Corporate Advisory Services Limited were appointed joint and several provisional liquidators (the "Provisional Liquidators") of the Company on 15 January 2003. The Provisional Liquidators were thus responsible for preparing the audited financial statements for the year ended 31 March 2003 and the subsequent period until they were removed on 11 December 2003. The Provisional Liquidators have, however, not been able to give an unqualified representation as to the completeness and accuracy of the recording of the transactions entered into by the Group prior to their appointment and also as to whether the financial statements for the year ended 31 March 2003 present a true and fair view of the Group's operations for the year then ended and its financial status at that date. The period of this report for six months ended 30 September 2003 was under the Provisional Liquidators' responsibility.

The new directors, who were all appointed on 11 December 2003, have prepared this interim financial report according to the best of their knowledge and information currently available to them. Notwithstanding taken all necessary procedures, they have not been able at the moment to give an unqualified representation as to the completeness of the recording of the transactions entered into by the Group prior to their appointment and also as to whether the financial statements present a true and fair view of the Group's operations for the period ended 30 September 2003 and financial status as at 30 September 2003.

- (b) These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants and with the Appendix 16 to the Listing Rules.

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2003, except for the adoption of SSAP 12 (Revised) "Income Taxes" which becomes effective in the current period.



## 1. Basis of preparation and principal accounting policies *(Continued)*

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, deferred tax is accounted for at the current taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly. As a result of this change in accounting policy, the opening balance on accumulated losses at 1 April 2003 has been decreased by HK\$9,119,852 (1 April 2002: HK\$12,074,970). The loss for the period ended 30 September 2003 has been decreased by HK\$4,337,950 (period ended 30 September 2002: HK\$540,059).

- (c) The interim financial report has been prepared on a going concern basis as consequent upon the completion of the Restructuring Agreement on 11 December 2003 and with the subsequent capital injection, the Group should have sufficient working capital for its operations upto 30 September 2004.

## 2. Segmental information

The Group is principally engaged in property investment and hotel operation.

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

### (a) Business Segments

*Six months ended 30 September 2003*

	<b>Property investment HK\$</b>	<b>Hotel operation HK\$</b>	<b>Unallocated HK\$</b>	<b>Consolidated HK\$</b>
Revenue from external customers	<b>482,000</b>	<b>6,305,831</b>	-	<b>6,787,831</b>
Other revenue from external customers	-	-	<b>16,770</b>	<b>16,770</b>
Exchange gain	<b>285,079</b>	<b>262,213</b>	<b>88,152</b>	<b>635,444</b>
<b>Total</b>	<b>767,079</b>	<b>6,568,044</b>	<b>104,922</b>	<b>7,440,045</b>
Segment results	<b>439,547</b>	<b>(33,865,668)</b>	-	<b>(33,426,121)</b>
Unallocated corporate expenses				<b>(1,970,235)</b>
Loss from operations				<b>(35,396,356)</b>
Finance costs				<b>(27,467,925)</b>
Share of results of jointly controlled entities				-
Share of results of associates	<b>73,201</b>	-	-	<b>73,201</b>
Loss from ordinary activities before taxation				<b>(62,791,080)</b>
Taxation	<b>(17,080)</b>	<b>4,337,950</b>	-	<b>4,320,870</b>
Loss from ordinary activities after taxation				<b>(58,470,210)</b>
Minority interests				-
Net loss attributable to the shareholders				<b>(58,470,210)</b>

No inter-segment sales and transfers were transacted during the period.



## 2. Segmental information *(Continued)*

### (a) Business Segments *(Continued)*

*Six months ended 30 September 2002*

	Property investment HK\$	Hotel operation HK\$	Unallocated HK\$	Consolidated HK\$
Revenue from external customers	1,641,405	8,304,890	–	9,946,295
Other revenue from external customers	–	–	233,856	233,856
<b>Total</b>	<b>1,641,405</b>	<b>8,304,890</b>	<b>233,856</b>	<b>10,180,151</b>
Segment results	1,611,252	(6,046,341)	–	(4,435,089)
Unallocated corporate income				11,423,241
Profit from operations				6,988,152
Finance costs				(29,042,497)
Share of results of jointly controlled entities				–
Share of results of associates				75,330
Loss from ordinary activities before taxation				(21,979,015)
Taxation				525,598
Loss from ordinary activities after taxation				(21,453,417)
Minority interests				–
Net loss attributable to the shareholders				(21,453,417)

No inter-segment sales and transfers were transacted during the period.

## 2. Segmental information *(Continued)*

### (b) Geographical segments

The following table presents revenue and profit/(loss) for the Group's geographical segments for the six months ended 30 September:

	Hong Kong		PRC	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Segment revenue:				
Revenue from external customers	<u>482,000</u>	<u>1,641,405</u>	<u>6,305,831</u>	<u>8,304,890</u>
Segment results	<u>439,547</u>	<u>1,611,252</u>	<u>(33,865,668)</u>	<u>(6,046,341)</u>

## 3. PROVISION FOR IMPAIRMENT LOSS ON HOTEL PROPERTIES

The carrying value stated was based on an open market value valuation made by an independent firm of professional valuers. A shortfall of HK\$25,416,317 between the carrying value and fair value has been charged to the income statement.

## 4. TAXATION

Taxation in the consolidated income statement comprises:

	2003 HK\$	2002 HK\$
Deferred tax	<u>4,337,950</u>	<u>540,059</u>
Share of taxation attributable to associates	<u>(17,080)</u>	<u>(14,461)</u>
	<u>4,320,870</u>	<u>525,598</u>

- (a) No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries did not have any assessable profits for the period (2002: HK\$Nil).
- (b) No provision for PRC income tax has been made as there were no assessable profits for the subsidiary operating in the PRC during the period (2002: HK\$Nil).



## 5. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated net loss attributable to the shareholders for the period ended 30 September 2003 of HK\$58,470,210 (2002: HK\$21,453,417) and 1,074,328,367 (2002: 1,074,328,367) shares in issue during the period.

Diluted loss per share has not been presented as there were no potential dilutive share options in existence during the period.

## 6. JOINTLY CONTROLLED ENTITIES

	<b>30 September 2003 HK\$</b>	31 March 2003 HK\$
Loan to a jointly controlled entity <i>(note (a))</i>	<b>96,868,810</b>	96,868,810
Less: Provision for doubtful amounts	<b>(96,868,810)</b>	(96,868,810)
	<b>—</b>	—

*Note:*

- (a) The loan due from a jointly controlled entity is unsecured, bearing interest at 12% per annum and repayable on demand. No accrual has been made for interest receivable for the current and previous years as provision for doubtful amounts had been made. The Company's interest in this loan has been subordinated to a joint venture partner in first priority and to Sino Earn Holdings Limited ("Sino Earn") in second priority for loan facilities granted.

The obligation to a jointly controlled entity of HK\$15,000,000 as at 30 September 2003 (31 March 2003: HK\$15,000,000) was provided based on the net exposure of the Group on the outstanding bank loan and loan from a joint venture partner on balance drawn down by the jointly controlled entity. Such obligation to a jointly controlled entity is limited to the extent of HK\$15,000,000 pursuant to the banking facility granted from the bank. Any excess of accrued interest and/or penalty over the guaranteed amount is beyond the Group's obligation.

## 7. ACCOUNTS RECEIVABLE, UTILITY DEPOSITS AND PREPAYMENTS

Included in accounts receivable, utility deposits and prepayments are trade receivables of HK\$441,706 (31 March 2003: HK\$978,410). The ageing analysis of trade receivables was as follows:

	<b>30 September 2003 HK\$</b>	31 March 2003 HK\$
0 – 30 days	<b>262,337</b>	307,518
31 – 60 days	<b>137,506</b>	234,976
61 – 90 days	<b>32,763</b>	98,260
> 90 days	<b>9,100</b>	337,656
	<b><u>441,706</u></b>	<u>978,410</u>

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

## 8. ACCOUNTS PAYABLE, ACCRUED CHARGES AND TENANTS' DEPOSITS

Included in accounts payable, accrued charges and tenants' deposits are trade payables of HK\$26,073,192 (31 March 2003: HK\$24,250,995). The ageing analysis of trade payables was as follows:

	<b>30 September 2003 HK\$</b>	31 March 2003 HK\$
0 – 180 days	<b>1,246,130</b>	3,102,787
> 180 days	<b>24,827,062</b>	21,148,208
	<b><u>26,073,192</u></b>	<u>24,250,995</u>

## 9. SHARE CAPITAL

There were no movements in the share capital of the Company during the period.



## 10. PLEDGE OF ASSETS

As at 30 September 2003, bank loan of HK\$28,206,623 (31 March 2003: HK\$28,266,154) is secured by the Group's 40% interests in Xiamen South East Asia Hotel Company, Limited ("Xiamen Plaza").

The Group's investment properties with a carrying value of HK\$10,250,000 as at 30 September 2003 (31 March 2003: HK\$10,250,000) are secured, among other securities, in favour of Sino Earn for loan facilities granted to the Company amounting to HK\$145,632,024 (31 March 2003: HK\$145,632,024).

The Group's investment properties with a carrying value of HK\$Nil as at 30 September 2003 (31 March 2003: HK\$1,340,000) are secured, among other securities, in favour of a third party for a loan granted to the Company amounting to HK\$Nil (31 March 2003: HK\$3,526,551).

## 11. LITIGATIONS AND CONTINGENT LIABILITIES

- (a) A writ of summons was lodged by two former directors against the Company demanding the unpaid salaries, severance pay and entitled long service payments of HK\$5,722,581. The Company has served a counterclaim of HK\$6,581,892 for damages as a result of the unauthorised actions performed by these former directors without the consent knowledge and authority of the Company. A provision of HK\$1,111,358 has been made in the financial statements in respect of the said unpaid salaries.
- (b) According to a memorandum of understanding (the "MOU") entered into between the Company and certain potential investors on 29 May 2002 in relation to the possible restructuring of the Group, one of the potential investors is eligible to receive consultancy service fee of HK\$6,000,000 for the services provided in respect of (a) the negotiation with the financial creditors of the Group for the terms of the debt restructuring agreement; (b) the daily operation of the Group; and (c) dealing with the legal proceedings in relation to the Group in these connections. According to the Company, such liability will not materialize as the potential investor concerned has not fulfilled the conditions set out in the MOU.
- (c) As at 31 March 2003, judgement debts have been obtained by the Inland Revenue Department against two subsidiaries for outstanding profits tax payable. A provision for the profits tax payable together with the surcharges has been made in the financial statements.



## 12. POST BALANCE SHEET EVENTS

- (a) On 10 October 2003, a composite document dated 9 October 2003 containing information relating to, among other things, the Proposed Restructuring contemplated in the Restructuring Agreement, the Whitewash Waiver, the proposed change of the Company name, the New Issue Mandate, and the Repurchase Mandate ("Composite Document"), together with a form of proxy for use at the Extraordinary General Meeting ("EGM") was dispatched to the shareholders. The EGM was held on 3 November 2003 and all resolutions as set out in the Notice of EGM contained in the Composite Document were duly passed by the shareholders.

A pro forma unaudited consolidated balance sheet of the Group as at 31 March 2003 included in the Composite Document reflecting the financial effect of the Proposed Restructuring is extracted as follows:

	<i>HKS'000</i>
Non-current assets	
Fixed assets	92,932
Associates	11,511
	<u>104,443</u>
Total non-current assets	<u>104,443</u>
Current assets	
Accounts receivable, utility deposits and prepayments	1,341
Inventories	500
Cash and bank balances	25,163
	<u>27,004</u>
Total current assets	<u>27,004</u>
Total Assets	<u>131,447</u>
Liabilities	
Bank and other borrowings	43,757
Accounts payable, accrued charges and tenants' deposits	15,322
	<u>59,079</u>
Total Liabilities	<u>59,079</u>
Net Assets	<u>72,368</u>
Capital and reserves	
Share capital	55,246
Reserves	17,122
	<u>72,368</u>



## 12. POST BALANCE SHEET EVENTS *(Continued)*

- (b) By an Order of the Hong Kong High Court ("Court") dated 6 November 2003, the Company was directed to convene a scheme meeting of the unsecured creditors for the purpose of considering and approving the Scheme of Arrangement proposed to be made between the Company and the Scheme Creditors ("Scheme Creditors Meeting"). A Notice of Scheme Meeting was given to the Scheme Creditors on 7 November 2003 and a set of the Scheme Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to Section 166 of the Companies Ordinance was enclosed. The Scheme Creditors Meeting was held on 25 November 2003 and the Scheme was approved. When the Scheme is implemented, HK\$11,000,000 from the subscription proceeds paid by the Investor for newly issued shares in the Company pursuant to the Restructuring Agreement, will be available for distribution to the Scheme Creditors under the Scheme, subject to the prior payment of the costs.

The Court sanctioned the Scheme at the hearing held on 10 December 2003 and hence the Scheme became effective and binding on all the Creditors. Upon the completion of the Scheme, the whole indebtedness and liabilities due by the Company to the Scheme Creditors shall be then released and fully discharged.

- (c) On 11 December 2003, all the conditions precedent under the Restructuring Agreement have been satisfied and hence completed on the same day. The effective date of the Capital Restructuring was also 11 December 2003.
- (d) On 11 December 2003, all existing Directors of the Company were removed and new Directors were appointed.
- (e) Upon the consent of the Investor, 16 non-core subsidiaries and 1 jointly controlled entity were transferred to the Provisional Liquidators (or their nominees) on 11 December 2003. These companies are either dormant or have ceased operations and had net liabilities. Their removal from the Group will have no material financial impact to the Group.
- (f) The Company has entered into a placing agreement and subscription agreement on 11 December 2003. Pursuant to the placing agreement, the Investor has appointed a placing agent to place 800,000,000 placing shares on a fully underwritten basis to not less than six independent parties at the placing price of HK\$0.025 per placing share. The placing was completed on 16 December 2003.
- (g) On 17 December 2003, trading in the shares on the Stock Exchange has been resumed at 9:30 a.m.. The board lot size of the shares of the Company has been changed from 2,000 shares to 200,000 new shares.

## 12. POST BALANCE SHEET EVENTS *(Continued)*

- (h) Pursuant to the subscription agreement entered into by the Company on 11 December 2003, the Investor has conditionally agreed to subscribe for 800,000,000 new shares at the subscription price of HK\$0.025 per new share following a placement of the same quantity of new shares to independent third parties to meet the public float requirements of the Stock Exchange. The transaction was completed on 24 December 2003, and raised for the Group a net proceed of approximately HK\$19.4 million.
- (i) The Group was granted a Court Order on 23 February 2001 for rescission (the “Rescission Order”) of the Agreement in relation to the Group’s acquisition of a 60% equity interest in Skycheer Development Limited (“Skycheer”), which owns 100% equity interest in Xiamen Hong Du Park Hotel (“Hong Du”) which was partially settled by the transfer of the Group’s 40% equity interest in Yan Hei Limited (“Yan Hei”), which owns 100% equity interest in Xiamen Plaza. As a result of the Rescission Order, Skycheer and Hong Du would not be 60% owned by the Group and the said 40% equity interest in Yan Hei and its subsidiary, Xiamen Plaza, would be included as wholly owned subsidiaries of the Group.

As the Rescission Order did not include the detailed steps and procedures on how it was to be effected, a second order (“Procedural Order”) has been sought by the Provisional Liquidators and was made by the Court on 3 December 2003. The Procedural Order sets out necessary steps and procedures to effect the Rescission Order which include principally the transfer of the Group’s 60% interest in Skycheer in return for the 40% equity interest in Yan Hei be transferred back to the Group. As the 1st defendant of the case, Mr. Hung To, is bankrupt whereas the 2nd defendant of the case, Good Fortune Resources Limited, has been struck off the Register of Companies of the British Virgin Islands, the Procedural Order directs that the Registrar of the High Court be authorized to execute all necessary documents for and on behalf of the defendants to give effect of the Procedural Order.

The time for filing an appeal against the Rescission Order expired almost three years ago whereas that for the Procedural Order lapsed on 17 December 2003. The directors consider that any appeal against the Procedural Order is remote given (i) the 1st defendant is bankrupt and the Official Receiver has indicated to the Provisional Liquidators that he does not intend to appeal the Procedural Order and (ii) the 2nd defendant has been struck off and hence does not have standing to appeal. According to the legal advice to the Provisional Liquidators, the Procedural Order was not strictly necessary and only clarifies how the Rescission Order is to be put into effect. Any appeal could only possibly be in relation to the means of for implementing the Rescission Order but not the Rescission Order itself.

**12. POST BALANCE SHEET EVENTS** *(Continued)*

The Company is in the process of implementing the steps and procedures therein and will complete it as soon as practicable, after which the Group will hold 100% Yan Hei, the main operating subsidiary of the Group who controls 100% of Xiamen Plaza. The implementation of the Procedural Order has no effect on the operations of the Group.

The Group's consolidated financial statements were prepared on the basis that the Group has 100% equity interest in Yan Hei since the granting of the Rescission Order.