

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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 and was resumed on 27th April, 2004.

On 5th December, 2002, Messrs. Cosimo Borrelli and Fan Wai Kuen, of RSM Nelson Wheeler Corporate Advisory Services Limited were appointed by the High Court of Hong Kong (the “High Court”) as joint and several provisional liquidators of the Company (the “Provisional Liquidators”) to, amongst other things, protect the assets of the Company and to facilitate a restructuring of the Company.

On 20th November, 2003, the Company, acting through the Provisional Liquidators, entered into an agreement for the implementation of a restructuring proposal (the “Restructuring Agreement”), amongst others, with Wai Kee Holdings Limited (“Wai Kee”, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange). The restructuring involves, among other things, the capital restructuring, the debt restructuring, the subscription, the Group reorganisation and the injection of assets by Wai Kee (the “Restructuring”). Details of the Restructuring are set out in a document jointly issued by the Company and Wai Kee dated 24th February, 2004 (the “Document”).

A special general meeting has been held by the shareholders of the Company on 18th March, 2004 pursuant to which all necessary resolutions relating to the Restructuring has been passed by the independent shareholders of the Company.

On 23rd April, 2004, the Restructuring Agreement has been completed and, thereafter, Wai Kee became the ultimate holding company of the Company. Each of the Provisional Liquidators were released and discharged as joint and several provisional liquidators of the Company pursuant to the order of the Supreme Court of Bermuda and the Court of First Instance of the High Court (the “Courts”).

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 30.

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\$729,233,000 (2003: HK\$681,393,000) as at 31st March, 2004. Following the completion of the Restructuring Agreement, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the directors have prepared the financial statements on a going concern basis.
- (b) These financial statements were prepared based on the limited books and records and other latest information provided by the Provisional Liquidators the directors after their appointment on 23rd April, 2004. The directors have used their reasonable endeavours to assess all the available financial and business records of the Group. The information available to the directors is limited. As a result, the directors are unable to represent that all transactions entered into by the Company and its subsidiaries are reflected in the books and records and in the financial statements. Accordingly, the directors were unable to satisfy themselves as to the completeness of identification and the appropriateness of disclosure in respect of the potential claims, the commitments, the contingent liabilities and the pledge of assets in the financial statements as at 31st March, 2004. In addition, the directors were unable to obtain sufficient documentary information to satisfy themselves regarding the matters described below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(b) (Continued)

- (i) There is insufficient information for the directors to satisfy themselves that all the amounts included in the consolidated income statement for the year ended 31st March, 2004 were free from material misstatement. As a result, the directors were unable to satisfy themselves as to the reliability of the related disclosure in the financial statements.
- (ii) The directors were unable to obtain sufficient documentary evidence to satisfy themselves as to the validity of the movement of property, plant and equipment as disclosed in note 14 to the financial statements. Accordingly, the directors were unable to satisfy themselves as to whether the carrying amounts of property, plant and equipment as at 31st March, 2004 were free from material misstatement.
- (iii) The directors were unable to assess whether any allowance for doubtful debt is required in respect of short-term receivables of HK\$6,483,000. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the consolidated balance sheet as at 31st March, 2004 were free from material misstatement.
- (iv) The directors were unable to obtain sufficient documentary evidence to satisfy themselves as to the validity of trade and other receivables of the Group and the Company of HK\$2,885,000 and HK\$53,000 respectively nor to assess whether any allowance for doubtful debt is required to be made in respect of these receivables. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the balance sheets of the Group and the Company as at 31st March, 2004 were free from material misstatement.
- (v) The directors were unable to obtain sufficient documentary evidence to satisfy themselves as to the validity of the amounts due from former associates/associates of the Group of HK\$31,000. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the consolidated balance sheet as at 31st March, 2004 were free from material misstatement.
- (vi) The directors were unable to obtain bank statements or other documentary evidence in respect of bank balances and cash of the Group and the Company of HK\$1,021,000 and HK\$5,000 respectively. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the balance sheets of the Group and the Company as at 31st March, 2004 were free from material misstatement.
- (vii) The directors were unable to obtain sufficient documentary evidence to satisfy themselves as to the validity of other payables of the Group and the Company of HK\$172,865,000 and HK\$167,087,000 respectively. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the balance sheets of the Group and the Company as at 31st March, 2004 were free from material misstatement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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

(b) *(Continued)*

- (viii) The directors were unable to obtain sufficient documentary evidence in respect of amounts due to former associates/associates of the Group and the Company of HK\$10,350,000 and HK\$5,401,000 respectively. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the balance sheets of the Group and the Company as at 31st March, 2004 and the related interest expenses of the Group of HK\$66,000 for the year ended 31st March, 2004 were free from material misstatement.
- (ix) The directors were unable to obtain sufficient documentary evidence to satisfy themselves as to the validity of amounts due to subsidiaries of the Company of HK\$9,347,000. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the balance sheet of the Company as at 31st March, 2004 were free from material misstatement.
- (x) The directors were unable to obtain sufficient documentary evidence in respect of amounts due to former directors of the Group and the Company of HK\$7,663,000 and HK\$7,361,000 respectively. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the balance sheets of the Group and the Company as at 31st March, 2004 were free from material misstatement.
- (xi) The directors were unable to obtain sufficient evidence to satisfy themselves as to the validity of taxation payables of the Group and the Company of HK\$1,142,000 and HK\$383,000 respectively. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the balance sheets of the Group and the Company as at 31st March, 2004 were free from material misstatement.
- (xii) The directors were unable to obtain sufficient documentary evidence in respect of bank and other borrowings of the Group and the Company of HK\$552,613,000 and HK\$411,383,000 respectively. Accordingly, the directors were unable to satisfy themselves as to whether these amounts in the balance sheets of the Group and the Company as at 31st March, 2004 and the related interest expenses of the Group of HK\$47,146,000 for the year ended 31st March, 2004 were free from material misstatement.
- (xiii) The directors were unable to determine the appropriate amount to be transferred from the asset revaluation reserve account to deficit account as a result of the realisation of asset revaluation reserve upon disposal of the properties held by associates during the year ended 31st March, 2002. Accordingly, the directors were unable to satisfy themselves as to whether the asset revaluation reserve of the Group of HK\$223,734,000 and the deficit of HK\$1,181,104,000 of the Group as at 31st March, 2004 in the consolidated balance sheet were free from material misstatement.
- (xiv) The directors were unable to obtain sufficient documentary evidence to determine whether the Group and the Company have any deferred tax assets and liabilities that should be recognised in the financial statements following the adoption of Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income taxes” issued by the Hong Kong Society of Accountants (“HKSA”). Accordingly, the directors were unable to satisfy themselves as to the completeness of deferred tax assets and liabilities that should be recognised in the financial statements as at 31st March, 2004 and whether prior period adjustment is required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(b) (Continued)

- (xv) Due to the limited books and records available to the directors, the following disclosures have not been made in the financial statements:
- Details of reconciliation between taxation for the year and taxation calculated based on the accounting loss per the income statement as well as the amounts of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset or liability is recognised in the balance sheet as required by SSAP 12 (Revised);
 - Details of operating lease commitments as required by SSAP 14 “Leases”;
 - The carrying amount of land and buildings had the land and buildings are carried at cost less accumulated depreciation and amortisation as required by SSAP 17 “Property, plant and equipment”;
 - Details of related party disclosures as required by SSAP 20 “Related party disclosures”;
 - Details of the retirement benefits scheme as required by SSAP 34 “Employee benefits”;
 - Details of the aged analysis of trade receivables as required by Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; and
 - Details of analysis of secured borrowings, pledge of assets, contingencies and commitments as required by the Hong Kong Companies Ordinance.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group is required to adopt the following Hong Kong Financial Reporting Standards (“HKFRSs”) newly issued by the HKSA. The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

Income taxes

In current year, the Group is required to adopt SSAP 12 (Revised) “Income taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision should be made for deferred tax using the income statement liability method, i.e. a liability should be recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax should be recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. Details of this revised accounting policy are set out in note 4. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has to be applied retrospectively. As explained in note 2(b)(xiv), the directors were unable to obtain sufficient documentary evidence to determine whether the Group and the Company have any deferred tax assets and liabilities that should be recognised in the financial statements following the adoption of SSAP 12 (Revised) and no deferred tax has been recognised for the years ended 31st March, 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of properties.

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.

Turnover

Turnover represents rental income received and receivable during the year.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and identified 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 identified 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.

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.

Investments in securities

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 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.

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.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxation (Continued)**

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

In preparing consolidated financial statements, the assets and liabilities of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiaries are disposed of.

Retirement benefit scheme

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").

5. SEGMENTAL INFORMATION

The sole principal activity of the Group for the years ended 31st March, 2004 and 2003 is the hiring of motor vehicles in Hong Kong and accordingly, no analyses of business and geographical segment are presented.

6. OTHER OPERATING EXPENSES

	2004	2003
	HK\$'000	HK\$'000
Loss on disposal of investment properties	—	1,100
Investment properties in the People's Republic of China (the "PRC") written off	—	147,800
	<u>—</u>	<u>148,900</u>
	<u>—</u>	<u>148,900</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

7. LOSS FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	—	—
Depreciation and amortisation:		
Owned assets	260	560
Assets held under finance leases	—	372
Loss on disposal of property, plant and equipment	—	678
Minimum lease payment for premises under operating leases	—	98
Staff costs:		
Directors' remuneration	—	7,216
Contributions to retirement benefit scheme and MPF	—	28
Other staff costs	—	725
	—	7,969
and after crediting:		
Gain on disposal of property, plant and equipment	509	—
Rental income received and receivable under operating leases in respect of motor vehicles from outsiders	359	2,544
	359	2,544

Auditors' remuneration for both years is borne by Wai Kee pursuant to the Restructuring Agreement.

8. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest payable on:		
Bank and other borrowings wholly repayable within five years	47,146	23,580
Amounts due to associates	66	126
Obligations under finance leases	—	17
	47,212	23,723
	47,212	23,723

9. DIRECTORS' REMUNERATION

Particulars of the emoluments of the directors are as follows:

	2004	2003
	HK\$'000	HK\$'000
Fees for executive directors	—	16
Salaries and other benefits	—	7,200
	—	7,216
	—	7,216

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

9. DIRECTORS' REMUNERATION (Continued)

The emoluments of the directors are within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	5	5
HK\$3,500,001 to HK\$4,000,000	<u>—</u>	<u>2</u>

The above disclosures in respect of directors' emoluments for the year ended 31st March, 2003 were based on the information available together with the Notices of Claim received by the Provisional Liquidators from the former directors of the Company.

10. EMPLOYEES' EMOLUMENTS

For the year ended 31st March, 2004, the Group did not have any employees.

Of the five individuals with highest paid in the Group for the year ended 31st March, 2003, two are directors of the Company whose emoluments are set out in note 9 above. The emoluments of the remaining three individuals are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	—	725
Contributions to retirement benefit scheme and MPF	<u>—</u>	<u>28</u>
	<u>—</u>	<u>753</u>

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

No emoluments were paid by the Group to the five highest paid individuals, as an inducement to join or upon joining the Group or as compensation for loss of office.

11. TAXATION

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 profit for both years. The amount in prior year represented an underprovision of Hong Kong Profits Tax in respect of previous years.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$47,840,000 (2003: HK\$183,725,000) and on 127,084,941 (2003: 127,084,941) shares in issue during the year which has been adjusted for the share consolidation taken place on 23rd April, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

13. INVESTMENT PROPERTIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
At beginning of the year	—	150,900
Disposals	—	(3,100)
Written off	—	(147,800)
	<u>—</u>	<u>(147,800)</u>
At end of the year	<u>—</u>	<u>—</u>

In prior year, the Provisional Liquidators had appointed PRC legal advisors to ascertain the status in respect of the Group's titles to the investment properties situated in the PRC. The PRC legal advisors indicated that the Group did not have legal titles to the investment properties. As a result, the Provisional Liquidators had written off the Group's investment properties.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, machinery and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1st April, 2003	4,900	33,145	4,673	42,718
Disposals	—	—	(2,872)	(2,872)
	<u>4,900</u>	<u>33,145</u>	<u>1,801</u>	<u>39,846</u>
At 31st March, 2004	4,900	33,145	1,801	39,846
Comprising:				
At cost	—	33,145	1,801	34,946
At valuation — 2001	4,900	—	—	4,900
	<u>4,900</u>	<u>33,145</u>	<u>1,801</u>	<u>39,846</u>
DEPRECIATION AND AMORTISATION				
At 1st April, 2003	—	33,101	3,947	37,048
Provided for the year	—	—	260	260
Eliminated on disposals	—	—	(2,442)	(2,442)
	<u>—</u>	<u>33,101</u>	<u>1,765</u>	<u>34,866</u>
At 31st March, 2004	—	33,101	1,765	34,866
NET BOOK VALUES				
At 31st March, 2004	<u>4,900</u>	<u>44</u>	<u>36</u>	<u>4,980</u>
At 31st March, 2003	<u>4,900</u>	<u>44</u>	<u>726</u>	<u>5,670</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's land and buildings 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.

The Group's land and buildings has been foreclosed by a secured creditor on 27th July, 2001. Accordingly, no valuation was performed as at 31st March, 2004 and 31st March, 2003.

At 31st March, 2004 and 2003, the Group's motor vehicles are held for rental purposes under operating leases.

At 31st March, 2003, the net book values of the property, plant and equipment of the Group included an amount of HK\$233,000 in respect of assets held under finance leases.

15. LONG-TERM DEPOSITS

	THE GROUP AND THE COMPANY	
	2004	2003
	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)
	—	—

The deposits represent the full amount of consideration paid for the acquisition of an investment property and a property development project under an agreement (the "Agreement") entered into with China Merchants Bank ("CMB") and certain third parties (the "Third Parties") in December 1998 and for an investment project under a separate agreement also entered into in December 1998. The investment property, the investment project and the property development project are all situated in the PRC. However, the former directors of the Company have objected to the validity of the Agreement in respect of the investment property and the property development project.

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.

Against these background, the former directors of the Company have considered it is appropriate to make full allowance in respect of the deposits in the financial statements for the year ended 31st March, 2000.

Details of the proceedings between the Company and CMB are set out in note 28(a).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	482,322	482,322
Amounts due from subsidiaries	607,691	607,691
	<u>1,090,013</u>	<u>1,090,013</u>
Less: Impairment loss recognised	(1,090,013)	(1,090,013)
	<u><u>—</u></u>	<u><u>—</u></u>

Particulars of the Company's principal subsidiaries as at 31st March, 2004 are set out in note 30.

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.

17. INTEREST IN ASSOCIATES/INVESTMENT IN SECURITIES

At 31st March, 2003, the Group held 27.55% equity interest in Seapower Resources International Limited ("SRI"), which was principally engaged in cold storage warehousing, logistic management and property investment. SRI was accounted for as an associate of the Group with share of net assets of nil. As a result of the restructuring of SRI, the Group's equity interest in SRI was diluted from 27.55% to 0.53% in December 2003 and the Group is no longer able to exercise significant influence over SRI. Accordingly, the investment in SRI was reclassified as investment in securities as at 31st March, 2004.

18. SHORT-TERM RECEIVABLES

The Group

As explained in note 28(a), CMB was granted an injunction by the court restricting the Group from dealing with the sales proceeds balance of HK\$24,120,000 arising from disposal of a property. At the balance sheet date, an amount of HK\$6,483,000 (2003: HK\$6,483,000) after deducting the mortgage outstanding and related expenses was put under the custody of the High Court.

19. AMOUNTS DUE FROM FORMER ASSOCIATES/ASSOCIATES

The Group

The amounts are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

20. AMOUNTS DUE TO FORMER ASSOCIATES/ASSOCIATES

Particulars of the amounts due to former associates/associates are as follows:

	Nature	THE GROUP		THE COMPANY	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest bearing	Secured (<i>note</i>)	1,721	1,655	—	—
	Unsecured	4,465	4,465	4,465	4,465
Interest free	Unsecured	4,164	4,164	936	936
		<u>10,350</u>	<u>10,284</u>	<u>5,401</u>	<u>5,401</u>

Note: The loans bear interest at prevailing market rates and are secured by collateral of certain of the Group's investments with nil carrying value as at 31st March, 2004 and at 31st March, 2003.

The above amounts have no fixed terms of repayment.

21. AMOUNTS DUE TO SUBSIDIARIES**The Company**

The amounts are unsecured, interest-free and have no fixed terms of repayment.

22. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum		Present value of	
	lease payments	lease payments	minimum	minimum
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases				
due within one year	—	137	—	123
<i>Less:</i> Future finance charges	—	(14)	—	—
	<u>—</u>	<u>123</u>	<u>—</u>	<u>123</u>
Present value of lease obligations				
due for settlement within one year	<u>—</u>	<u>123</u>	<u>—</u>	<u>123</u>

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, 2003, the average effective borrowing rate was at 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 were secured by the lessors' charge over the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank and other borrowings comprise:				
Bank loans	354,260	354,260	354,260	354,260
Bank overdrafts	57,122	53,833	57,123	53,833
Other borrowings	141,231	141,231	—	—
	<u>552,613</u>	<u>549,324</u>	<u>411,383</u>	<u>408,093</u>

The Group's and the Company's borrowings were not repaid in accordance with the repayment schedules set by the banks and other borrowers and, consequently, the outstanding amounts were due for immediate repayment.

24. SHARE CAPITAL

	Number of shares	Value <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31st March, 2003 and 2004	<u>8,000,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 31st March, 2003 and 2004	<u>508,339,764</u>	<u>5,083</u>

25. SHARE OPTIONS

The share options granted by the Company to the former directors and eligible employees of the Group to subscribe for shares in the Company under the share option scheme of the Company was adopted on 30th September, 1999. 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.

Due to the financial difficulties of the Group, the employment contracts of the former directors and employees were terminated during the year ended 31st March, 2003 and accordingly have ceased to be eligible employees under the share option scheme. The outstanding options previously granted to the eligible employees were not exercised and thus lapsed in accordance with the share option scheme during the year ended 31st March, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

25. SHARE OPTIONS (Continued)

Movement of share options during the year ended 31st March, 2003 are as follows:

	Number of share options		Outstanding at 31st March, 2003
	Outstanding at 1st April, 2002	Lapsed during the year	
Directors	34,000,000	(34,000,000)	—
Employees and others	15,360,000	(15,360,000)	—
	<u>49,360,000</u>	<u>(49,360,000)</u>	<u>—</u>

No share options are granted, exercised, cancelled or lapsed during the year ended 31st March, 2004.

26. RESERVES

	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY				
At 1st April, 2002	115	419,212	(937,493)	(518,166)
Net loss for the year	—	—	(40,569)	(40,569)
At 31st March, 2003 and 1st April, 2003	115	419,212	(978,062)	(558,735)
Net loss for the year	—	—	(47,252)	(47,252)
At 31st March, 2004	<u>115</u>	<u>419,212</u>	<u>(1,025,314)</u>	<u>(605,987)</u>

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 the Company's share capital issued for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus 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, 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, 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

27. MAJOR NON-CASH TRANSACTION

During the year ended 31st March, 2003, investment properties of the Group amounting to HK\$3,100,000 were seized and disposed of by certain financial creditors and the sale proceeds amounting to HK\$2,000,000 were applied to reduce the associated bank and other borrowings of the Group.

28. LITIGATION

- (a) In December 1998, the Company entered into the Agreement with CMB and the Third Parties. Under the terms of the Agreement, a loan of US\$23 million from CMB to the Third Parties was to be assumed by the Group in consideration for the transfer of certain debts owed to the Third Parties, certain shares, properties and land use rights in the PRC. In early 2000, the directors of the Company challenged the validity of the Agreement and since then, the Group has withheld all the repayments to CMB. On 20th July, 2000, CMB issued a writ of summons against the Group, claiming immediate repayment of all amounts due from the Group including interest and costs pursuant to the Agreement and a separate loan agreement. The directors of the Company filed a counterclaim against CMB and the Third Parties.

On 28th December, 2000, CMB was granted an injunction by the court restricting, among other things, the following:

- (i) The Group from dealing with the balance of HK\$24,120,000 arising from the disposal of a property save for effecting payment for the discharge of the outstanding mortgage and related expenses without the approval of the High Court (after discharge of the mortgage and payment of costs and expenses, a sum of HK\$6,482,500 was paid into court on 5th January, 2001 pursuant to the order); and
- (ii) 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 (2003: US\$10 million).

On 15th June, 2001, the High Court dismissed CMB's application for summary judgment against the Group. As at the date of the appointment of the Provisional Liquidators, the total amount of outstanding principal and interest due to CMB (including the amount in dispute) was approximately HK\$462 million.

- (b) On 20th December, 2001, Peregrine Brokerage Limited ("Peregrine") obtained judgment against a subsidiary of the Company for the sum of approximately HK\$109 million plus 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. There were no other corporate guarantees by other members of the Group. The margin facilities were secured by 159,315,000 shares of SRI (before the capital restructuring of SRI). The judgment remains unpaid as at the date of this report and continues to accrue interest at the rate prescribed from time to time by the High Court.
- (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. Due to limited books and records available to the directors, there is insufficient information for the directors to determine the status of this litigation at this stage.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

28. 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 approximately HK\$6,240,000) 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 financial statements in previous years. Due to limited books and records available to the directors, there is insufficient information for the directors to determine the status of the litigation at this stage.

Pursuant to section 186 of the Hong Kong Companies Ordinance and section 167(4) of the Companies Act 1981 of Bermuda, upon the appointment of Provisional Liquidators to the Company, no action or proceeding shall be proceeded with or commenced against the Company except by leave of the Courts. As at the balance sheet date, no party has sought leave of the Courts to continue any of the above actions involving the Company. Since the Restructuring is successfully implemented, all of the contingent claims against the Company were released and discharged pursuant to the schemes of arrangement as referred in note 29(b).

Other than the above, due to the limited books and records available to the directors, there is insufficient information for the directors to determine whether there are any significant outstanding claims, counterclaims and threatened litigations with other parties as at 31st March, 2004.

29. POST BALANCE SHEET EVENTS

The Provisional Liquidators and Wai Kee announced that the Restructuring Agreement has been completed on 23rd April, 2004 (the “Completion”) and the following transactions of the Restructuring Agreement have been taken place:

(a) The capital restructuring (“Capital Restructuring”)

- (i) the issued share capital of approximately HK\$5,083,000 was reduced by approximately HK\$3,813,000 to approximately HK\$1,270,000 by cancelling the paid-up capital to the extent of HK\$0.0075 on each of the 508,339,764 issued shares of HK\$0.01 each so that each of such issued shares shall be treated as one fully paid share of HK\$0.0025. The credit of approximately HK\$3,813,000 arising from the capital reduction was applied to eliminate an equivalent amount of the Company’s deficit;
- (ii) every four issued shares reduced pursuant to (i) above was consolidated into one new share of HK\$0.01. Accordingly, 508,339,764 issued shares of HK\$0.0025 were consolidated into 127,084,941 issued new shares of HK\$0.01 each;
- (iii) the unissued share capital of approximately HK\$74,917,000 in the authorised share capital of HK\$80,000,000 of the Company was cancelled and diminished resulting in an authorised and issued share capital of approximately HK\$1,270,000; and
- (iv) the authorised share capital of the Company was increased from approximately HK\$1,270,000 to HK\$200,000,000 divided into ordinary shares of HK\$170,000,000 and preference shares of HK\$30,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

29. POST BALANCE SHEET EVENTS (Continued)

(b) The debt restructuring

The Courts sanctioned the debt restructuring schemes (the “Schemes”) as described in the Document at the court hearings held on 8th April, 2004 and 20th April 2004 after approval by the creditors who were present and voting in person or by proxy at the creditors’ meetings held on 2nd April, 2004.

The claims received and admitted by the Company as at 2nd April, 2004 for the purpose of the creditors’ meeting amounting to approximately HK\$458 million. Pursuant to the Schemes, in consideration of the creditors’ discharging and waiving all their claims against the Company, the Schemes’ administrators received the following for distribution to the creditors:

- (i) HK\$22 million in cash from the proceeds of subscription as described in note (c) below paid by Wai Kee;
- (ii) 200,000,000 new ordinary shares of HK\$0.01 each of the Company;
- (iii) the granting of put option by Wai Kee to the creditors and/or the Schemes’ administrators to sell all or part of the 200,000,000 new ordinary shares to Wai Kee at a price of HK\$0.01 per new share exercisable within 90 days after the expiry of two years following completion. The put option is exercisable by the creditors at their sole discretion; and
- (iv) any cash held by the Company as at the date of Completion.

(c) The subscription (“Subscription”)

Immediately following the Completion on 23rd April, 2004, Wai Kee subscribed and the Company allotted and issued 5,987,000,000 new ordinary shares (the “New Ordinary Shares”) at HK\$0.01 each and 3,000,000,000 new preference shares (the “New Preference Shares”) of HK\$0.01 each in accordance to the terms of the Restructuring Agreement and the subscription agreement.

The total consideration for the subscription of new shares payable by Wai Kee is HK\$89.87 million, which was satisfied as follows:

- HK\$29.87 million in cash; and
- HK\$60 million by way of the injection of assets as described in note (e) below by Wai Kee into the Company.

The aggregate cash proceeds from the subscription of new shares of HK\$29.87 million were applied as follows:

- HK\$22 million for the cash payment to the creditors under the Schemes; and
- the balance of HK\$7.87 million for the settlement of the restructuring costs and expenses to be incurred in relation to the implementation of the Proposed Restructuring.

On 23rd April, 2004, 2,219,627,295 New Ordinary Shares were distributed to the shareholders of Wai Kee on the basis of 14 New Ordinary Shares for every five shares of the ordinary shares HK\$0.1 each held by shareholders of Wai Kee. On 24th April, 2004, Wai Kee converted 1,500,000,000 New Preference Shares into New Ordinary Shares of HK\$0.01 each.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

29. POST BALANCE SHEET EVENTS (Continued)**(d) Group reorganisation**

All the subsidiaries of the Company other than Trinity Rent-A-Car Limited (“Trinity”) were transferred to the Provisional Liquidators or Schemes’ administrators (or their nominees) at a nominal consideration of HK\$1 pursuant to the Restructuring. The shares of the subsidiaries other than Trinity shall be held on trust for the creditors.

Pursuant to the Restructuring Agreement, Wai Kee has been provided with an option (the “Trinity Option”), exercisable at its sole discretion before completion of the Restructuring Agreement and subscription of new shares by Wai Kee, to transfer the entire issued share capital of Trinity to the Provisional Liquidators or the Schemes’ administrators (or their nominees) on trust for the creditors at the nominal value of HK\$1. The Trinity Option was subsequently cancelled by a supplemental agreement entered into between the Provisional Liquidators and Wai Kee on 17th March, 2004.

(e) Injection of assets

Wai Kee has injected certain companies (the “Injected Assets”) into the Company. The principal activities of the Injected Assets are the undertaking of civil construction projects mainly for the public sector in Hong Kong, the PRC and Taiwan.

Following the Completion, each of the Provisional Liquidators were released and discharged as joint and several provisional liquidators of the Company pursuant to the orders of the Courts.

Further details of the above were set out in the announcements jointly made by the Company and Wai Kee dated 2nd April, 2004, 22nd April, 2004 and 26th April, 2004.

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company’s principal subsidiaries as at 31st March, 2004 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of issued share capital		Principal activities
			held by the Company*/ subsidiaries %	attributable to the Group %	
Felcasa International Limited	BVI	US\$1 ordinary share	100	100	Investment holding
Fordit Limited	Hong Kong	HK\$100 ordinary shares HK\$2 deferred shares (note)	100	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

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30. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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
Pan's Motors Limited	Hong Kong	HK\$50,000 ordinary shares	100	100	Property holding
		HK\$500,000 deferred shares (note)			
Seapower Consortium Company Limited	Hong Kong	HK\$1,000 ordinary shares	100	100	Investment holding
Seapower International (B.V.I.) Limited	BVI	HK\$1,000 ordinary shares	100*	100	Investment 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

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 table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.