

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in the business of investment holding and property development.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)"), Hong Kong Accounting Standards and Interpretations approved by the HKSA.

SSAP 12 (Revised)

Income taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised 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. The adoption of SSAP 12 (Revised) has decreased the net profit for the year ended 31st March, 2004 by approximately HK\$5,533,000 but has had no material effect on the results for the prior accounting periods.

3. CHANGE IN ACCOUNTING POLICY

In the current year, the directors of the Company have reviewed the Group's accounting policy for property under development. In previous years, the rental and other incidental income received and receivable during the period of development were netted off against development cost and included in the property under development. In the current year, the Group has changed its accounting policy to recognise the rental and other incidental income received and receivable as income in the consolidated income statement. The new accounting policy has been applied to be consistent with the requirements of the Hong Kong Accounting Standard No. 16 "Property, Plant and Equipment" issued by the HKSA in April 2004 and has been applied retrospectively. The change in accounting policy has increased both the other operating income and cost of property under development by approximately HK\$3,726,000 for the year ended 31st March, 2004 (2003: HK\$4,266,000). Accordingly, the impairment loss reversed in respect of the property under development for the year ended 31st March, 2004 has been decreased by approximately HK\$3,726,000 (2003: impairment loss recognised increased by HK\$4,266,000). Accordingly, the change in accounting policy has had no net effect on the results for the current or prior accounting periods.

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 and 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.

Where the Group holds more than half of the issued share capital of subsidiaries but is not in a position to control the composition of the board of directors or equivalent governing body of these subsidiaries, these subsidiaries are excluded from the consolidation. Such investments in unconsolidated subsidiaries are accounted for in accordance with the Group's accounting policy investments other than held-to-maturity securities in accordance with SSAP 24 "Accounting for investment in securities". At the date on which the Group ceases to have control and significant influence, such investments in unconsolidated subsidiaries are stated at the amount at which it would have been included under the equity method of accounting.

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

Investments in subsidiaries

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of the assets over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Furniture, fixtures and office equipment	10 – 20%
Motor vehicles	20%

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

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Properties under development**

Properties under development are stated at cost less any identified impairment loss. Cost comprises the cost of acquisition of the properties together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development.

Investments in securities

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

For other securities, unrealised gains and losses are dealt with in reserves, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

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. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

Sales of properties are recognised when unconditional sale and purchase agreements have been signed during the year and legal completion of the transactions takes place prior to the approval of the financial statements.

Service income is recognised when services are rendered.

Taxation

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

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 and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred taxation is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation 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 tax profit nor the accounting profit.

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

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

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation 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 taxation is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Operating leases**

Rental payable under operating leases are charged to the income statement on a straight line basis over the period of the relevant leases.

Foreign currencies

Transactions in foreign currencies are translated at the rates 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.

On consolidation, the assets and liabilities of the Group's operations in the People's Republic of China (other than Hong Kong) ("PRC") are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Retirement benefit costs

Payments to retirement benefit schemes other than the costs attributable to the development of the properties are charged as an expense as they fall due.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined business segments to be presented as the primary reporting format and geographical segments as the secondary reporting format. An analysis of the Group's business segmental information is as follows:

	Property sales and development <i>HK\$'000</i>	2004 Unallocated corporate items <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER	—	—	—
RESULTS			
Segment results	102,993	(2,257)	100,736
Interest income			2,234
Profit from operations			102,970
Finance costs			(679)
Profit before taxation			102,291
Taxation			(6,941)
Profit before minority interests			95,350
BALANCE SHEET			
Assets			
Segment assets	400,752	191	400,943
Liabilities			
Segment liabilities	(1,061)	(245)	(1,306)
Taxation payable	(169)	—	(169)
Amounts due to related companies	(16,000)	(9,913)	(25,913)
Amount due to a minority shareholder of a subsidiary	(17,518)	—	(17,518)
Deferred taxation	(5,533)	—	(5,533)
			(50,439)
OTHER INFORMATION			
Additions to property under development and property, plant and equipment	70	—	70
Depreciation of property, plant and equipment	2	—	2
Impairment loss reversed in respect of property under development	(93,062)	—	(93,062)

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

5. SEGMENT INFORMATION (continued)

	2003			Total HK\$'000
	Continuing operation Property sales and development HK\$'000	Discontinuing operation Holiday resort operation HK\$'000	Unallocated corporate items HK\$'000	
TURNOVER	<u>19,813</u>	<u>11,626</u>	<u>–</u>	<u>31,439</u>
RESULTS				
Segment results	12	21,510	(2,965)	18,557
Interest income				<u>378</u>
Profit from operations				18,935
Finance costs				(12,195)
Gain on disposal of subsidiaries	27,703	–	8,112	35,815
Loss on winding up of subsidiaries	(675)	–	–	(675)
Allowance for doubtful recovery of amount due from an unconsolidated subsidiary	(627,168)	–	–	<u>(627,168)</u>
Loss before taxation				(585,288)
Taxation				<u>(381)</u>
Loss before minority interests				<u>(585,669)</u>
BALANCE SHEET				
Assets				
Segment assets	302,809	–	91	<u>302,900</u>
Liabilities				
Segment liabilities	(2,093)	–	(263)	(2,356)
Amounts due to related companies	(16,000)	–	(11,287)	(27,287)
Amount due to a minority shareholder of a subsidiary	(17,973)	–	–	<u>(17,973)</u>
				<u>(47,616)</u>

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

5. SEGMENT INFORMATION (continued)

	2003			Total HK\$'000
	Continuing operation	Discontinuing operation	Unallocated	
	Property sales and development HK\$'000	Holiday resort operation HK\$'000	corporate items HK\$'000	
OTHER INFORMATION				
Additions to properties under development and property, plant and equipment	8,500	1,478	–	9,978
Depreciation of property, plant and equipment	22	3,629	–	3,651
Impairment loss recognised (reversed) in respect of properties under development and property, plant and equipment	7,326	(26,741)	–	(19,415)

During the year, less than 10% of the operations of the Group in terms of turnover, results of operations and assets were carried out or situated outside the PRC. Accordingly, no geographical segmental information is shown.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

6. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000 (restated)
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration (<i>note 7(a)</i>), and retirement benefit scheme contributions (<i>note 7(b)</i>)	505	4,994
Less: Staff costs capitalised in property under development	–	(109)
	<u>505</u>	<u>4,885</u>
Operating lease rentals in respect of rented premises	60	69
Less: Operating lease rentals capitalised in property under development	–	(69)
	<u>60</u>	<u>–</u>
Auditors' remuneration	253	290
Depreciation of property, plant and equipment	2	3,651
Loss on disposal of property, plant and equipment	–	301
and after crediting:		
Interest income from:		
– bank deposits	41	331
– loan receivable	2,193	47
Rental income (net of nil outgoings)	3,703	4,240
Reversal of allowance for amount due from a minority shareholder of a subsidiary	6,779	–
	<u>6,779</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' and employees' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' emoluments		
Directors' fees:		
Executive	300	400
Independent non-executive	200	200
	<hr/>	<hr/>
	500	600
Other emoluments	–	–
	<hr/>	<hr/>
	500	600
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of the six (2003: six) directors fall within the band from nil to HK\$1,000,000.

Employees' emoluments

All five highest paid individuals of the Group for both years are directors of the Company, details of whose emoluments are set out above.

(b) Retirement benefit scheme

The employees of the Group were members of a state-managed retirement benefit scheme operated by the PRC government. The Group was required to contribute a certain percentage of its payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme was to make the required contributions under the scheme. During the year, the retirement benefit scheme contributions were nil (2003: HK\$129,000).

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

8. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on:		
– amount due to a related company	(679)	(9,606)
– debentures	–	(2,589)
	<u>(679)</u>	<u>(12,195)</u>

9. DISCONTINUING OPERATION

On 14th February, 2003, the Group entered into a conditional sale and purchase agreement to dispose of its 100% equity interest in Lacework Profits Limited and its subsidiaries (collectively referred to as the “Lacework Group”), which carried out the Group’s holiday resort operation and part of the Group’s property sales and development operation. The disposal was completed on 29th March, 2003, the date on which control of the Lacework Group was passed to the purchaser. Accordingly, the Group’s holiday resort operation was identified as a discontinuing operation in that year.

The results of the holiday resort operation from 1st April, 2002 to 29th March, 2003 which had been included in the consolidated financial statements were as follows:

	Period ended 29th March, 2003 <i>HK\$'000</i>
Turnover	11,626
Cost of sales	(4,561)
Other operating income	193
Administrative expenses	(12,469)
Impairment loss reversed in respect of property, plant and equipment	<u>26,741</u>
Net profit for the period	<u>21,530</u>

The reversal of impairment loss of approximately HK\$26,741,000 in respect of certain property, plant and equipment of the holiday resort operation was determined with reference to the selling price of the underlying assets.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

9. DISCONTINUING OPERATION (continued)

The holiday resort operation discontinued during the year ended 31st March, 2003 contributed approximately HK\$17,710,000 to the Group's net operating cash flows, paid approximately HK\$1,298,000 in respect of investing activities and paid approximately HK\$16,664,000 in respect of financing activities.

The carrying amounts of the assets and liabilities of the holiday resort operation at the date of disposal were as follows:

	At 29th March, 2003 HK\$'000
Total assets	<u>38,606</u>
Total liabilities	<u>(109,737)</u>

10. TAXATION

The charge comprises:

	2004 HK\$'000	2003 HK\$'000
Current tax		
PRC enterprise income tax	(1,113)	–
Underprovision in prior years		
PRC enterprise income tax	(295)	(381)
Deferred taxation (note 24)		
Current year	<u>(5,533)</u>	–
	<u>(6,941)</u>	<u>(381)</u>

The PRC enterprise income tax is calculated at the rates prevailing in the PRC.

No provision for Hong Kong Profits Tax has been made as there were no estimated assessable profits for both years.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

10. TAXATION (continued)

The tax charge for the year can be reconciled to the profit (loss) before taxation per consolidated income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit (loss) before taxation	<u>102,291</u>	<u>(585,288)</u>
Tax at the rate prevailing in the PRC of 33%	(33,756)	193,145
Tax effect of expenses that are not deductible for tax purpose	(391)	(208,238)
Tax effect of income that is not taxable for tax purpose	3,277	12,454
Tax effect of reversal of deductible temporary differences not previously recognised	25,178	10,416
Tax effect of tax losses not recognised	(954)	(7,777)
Underprovision in prior years	<u>(295)</u>	<u>(381)</u>
Taxation for the year	<u>(6,941)</u>	<u>(381)</u>

11. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the Group's consolidated profit attributable to shareholders of approximately HK\$86,382,000 (2003: loss of HK\$598,266,000) and on 11,006,883 (2003: 11,006,883) ordinary shares in issue during the year.

Diluted earnings per share has not been presented for the year ended 31st March, 2004 as the Company had no dilutive potential ordinary shares for the year.

Diluted loss per share was not presented for the year ended 31st March, 2003 as the Company's debentures were fully cancelled during that year and the exercise price of the debentures was higher than the average market price of the Company's shares in the period up to the cancellation date of that year.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP			
COST			
At 1st April, 2003	297	1,120	1,417
Additions	4	–	4
Disposals	–	(651)	(651)
	<u> </u>	<u> </u>	<u> </u>
At 31st March, 2004	<u>301</u>	<u>469</u>	<u>770</u>
DEPRECIATION			
At 1st April, 2003	258	1,073	1,331
Provided for the year	2	–	2
Eliminated on disposals	–	(651)	(651)
	<u> </u>	<u> </u>	<u> </u>
At 31st March, 2004	<u>260</u>	<u>422</u>	<u>682</u>
NET BOOK VALUES			
At 31st March, 2004	<u>41</u>	<u>47</u>	<u>88</u>
At 31st March, 2003	<u>39</u>	<u>47</u>	<u>86</u>

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

13. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (restated)
At the beginning of the year	267,000	335,485
Currency realignment	(94)	3,433
Additions	66	8,490
Eliminated upon disposal of subsidiaries	—	(73,082)
	<u>266,972</u>	<u>274,326</u>
Impairment loss reversed (recognised)	93,062	(7,326)
	<u>360,034</u>	<u>267,000</u>

The property under development is situated in the PRC and is held under a land use right for a term of 50 years from 9th August, 1994. Included in property under development as at 31st March, 2004 is net interest capitalised of approximately HK\$21,372,000 (2003: HK\$21,372,000). No interest was capitalised in both years.

As at 31st March, 2004, the carrying amount of the property was stated at its net realisable value which was estimated by the directors of the Company with reference to an independent professional valuation prepared on an open market basis.

The reversal of impairment loss of approximately HK\$93,062,000 for the year ended 31st March, 2004 was estimated by the directors of the Company with reference to an independent professional valuation as at 31st March, 2004 which was prepared after taking into account of the modifications of the development proposal and market conditions.

Details of property under development as at 31st March, 2004 are set out on page 58.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

14. INTERESTS IN UNCONSOLIDATED SUBSIDIARIES

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Carrying value at the date of deconsolidation	–	–
Amount due from an unconsolidated subsidiary	717,556	717,556
Less: Allowance for doubtful recovery	(717,556)	(717,556)
	<u>–</u>	<u>–</u>

As at 31st March, 2004, the Group had 80% interest in the equities in and shareholders' loans to Canlibol Holdings Limited ("Canlibol") and its wholly-owned subsidiary, Beijing Peony Garden Apartment House Co., Ltd. ("Beijing Peony" and collectively referred to as the "Canlibol Group"), which were engaged in property development, representing the Group's entire investment costs in the Canlibol Group. The Group was unable to exercise its rights as a controlling shareholder of the Canlibol Group, and in particular its ability to exercise significant influence over the financial and operating policy decisions of the Canlibol Group and to obtain financial information. Against this background, the directors of the Company considered that the Group had lost the ability to exercise effective control over the Canlibol Group and the Canlibol Group had been dealt with as unconsolidated subsidiaries since 1st October, 2000.

On 22nd November, 2002, the Company was informed by its PRC lawyers that an unauthorised registration had been filed with the relevant authority in the PRC pursuant to which the entire interest in Beijing Peony had already been transferred to a party unknown to the Company. The directors of the Company had been in consultation with its PRC lawyers with a view to recovering its interest in the project and considered it was appropriate to make an allowance for doubtful recovery of the entire amount due from Canlibol.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	227	227
Less: Impairment loss recognised	(113)	(113)
	<u>114</u>	<u>114</u>

Particulars of the principal subsidiaries of the Company as at 31st March, 2004 are set out in note 32.

16. AMOUNTS DUE FROM SUBSIDIARIES

THE COMPANY

The amounts are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors of the Company, no demand for repayment will be made by the Company in the next twelve months. Accordingly, the amounts are shown as non-current assets.

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

THE GROUP

Included in deposits, prepayments and other receivables as at 31st March, 2004 was an amount (net of allowance made of approximately HK\$2,609,000 (2003: HK\$9,388,000)) of approximately HK\$34,726,000 (2003: HK\$26,210,000) due from a minority shareholder of a subsidiary. The amount advanced to the minority shareholder had been subsequently waived as at 9th June, 2004 (see note 30(a)). The amount is unsecured, bears interest at 1% over Hong Kong prime interest rate and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

18. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.02 each at 1st April, 2002	10,000,000,000	200,000
Consolidation of shares upon Initial Consolidation (note (a))	(9,600,000,000)	–
Increase in shares upon Capital Reduction and Share Subdivision (note (b))	1,999,600,000,000	–
Consolidation of shares upon Second Consolidation (note (c))	(1,800,000,000,000)	–
	<u>200,000,000,000</u>	<u>200,000</u>
Ordinary shares of HK\$0.001 each at 31st March, 2003 and 31st March, 2004	<u>200,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.02 each at 1st April, 2002	2,751,720,884	55,034
Consolidation of shares upon Initial Consolidation (note (a))	(2,641,652,049)	–
Cancellation of share capital and transfer to contributed surplus upon Capital Reduction (note (b))	–	(55,023)
Consolidation of shares upon Second Consolidation (note (c))	(99,061,952)	–
	<u>11,006,883</u>	<u>11</u>
Ordinary shares of HK\$0.001 each at 31st March, 2003 and 31st March, 2004	<u>11,006,883</u>	<u>11</u>

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

18. SHARE CAPITAL (continued)

Notes:

- (a) On 27th August, 2002, a resolution was passed at the special general meeting of the Company pursuant to which every 25 shares of HK\$0.02 each in the issued and unissued share capital of the Company were consolidated into one share of HK\$0.50 each ("Initial Consolidation") effective from 2nd September, 2002.
- (b) On 28th March, 2003, a resolution was passed at the special general meeting of the Company pursuant to which the paid up capital of the issued shares in the Company was reduced from HK\$0.50 to HK\$0.0001 each by cancellation of HK\$0.4999 paid up capital on each issued shares ("Capital Reduction") effective from 31st March, 2003. As a result of the Capital Reduction, an amount of approximately HK\$55,023,000 was first credited to the contributed surplus and then used to eliminate part of the accumulated losses of the Company. Upon the Capital Reduction taking effect, each unissued share (including the authorised but unissued share arising from the Capital Reduction) was subdivided into 5,000 shares of HK\$0.0001 each ("Share Subdivision"). The new shares rank pari passu with the then existing shares in all aspects.
- (c) Upon the Capital Reduction and Share Subdivision mentioned in the note (b) taking effect, every 10 shares of HK\$0.0001 each in the issued and unissued share capital of the Company were consolidated into one share of HK\$0.001 each ("Second Consolidation") effective from 31st March, 2003.

19. SHARE OPTION SCHEME

The Company adopted a share option scheme ("Share Option Scheme") on 2nd September, 2002 ("Adoption Date"), the primary purpose of which is to provide incentives or rewards to participants thereunder including the directors and eligible employees of the Group.

Under the Share Option Scheme, the directors of the Company are authorised, at any time within ten years after the Adoption Date, to grant options to any participants to subscribe for shares in the Company at a price not less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. The total number of shares in respect of which options may be granted under the Share Option Scheme cannot exceed 10% of the total number of shares in issue on the Adoption Date. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company, if any, cannot exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any participant shall not exceed 1% of the total number of shares in issue in any 12-month period. An option may be exercised at any time within ten years from the date of issue of the relevant options, where the acceptance date should not be later than 28 days from the date of the offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of options.

No options have been granted since the adoption of the Share Option Scheme.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

20. RESERVES

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1st April, 2002	564,363	666	514,191	(350,829)	728,391
Cancellation of shares	–	–	55,023	–	55,023
Transfer of contributed surplus to accumulated losses	–	–	(55,023)	55,023	–
Net loss for the year	–	–	–	(528,118)	(528,118)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2003	564,363	666	514,191	(823,924)	255,296
Net profit for the year	–	–	–	93,255	93,255
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2004	<u>564,363</u>	<u>666</u>	<u>514,191</u>	<u>(730,669)</u>	<u>348,551</u>

- (a) The contributed surplus of the Company represents the difference between the consolidated net assets of the Company's subsidiaries as at 7th July, 1992, the date on which the group reorganisation became effective, and the nominal value of the Company's shares issued under the group reorganisation, less any dividends subsequently paid out of pre-reorganisation profits and amounts utilised on redemption of shares.

Under the company law in Bermuda, the contributed surplus of the 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 there are reasonable grounds for believing that:

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

In the opinion of the directors of the Company, the Company had no distributable reserve as at 31st March, 2004 and 31st March, 2003.

- (b) The contributed surplus of the Group represents the difference between the aggregate of the nominal amount of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company's share capital issued as consideration for the acquisition.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

21. AMOUNT DUE TO A SUBSIDIARY THE COMPANY

The amount is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors of the Company, no demand for repayment from the subsidiary will be made in the next twelve months. Accordingly, the amount is shown as a non-current liability.

22. AMOUNT(S) DUE TO RELATED COMPANIES/A RELATED COMPANY

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Interest bearing at prevailing market rates (note (a))	9,913	11,287	9,913	11,287
Interest-free (note (b))	16,000	16,000	–	–
	<u>25,913</u>	<u>27,287</u>	<u>9,913</u>	<u>11,287</u>

Notes:

- (a) The amount is due to a subsidiary of Emperor International Holdings Limited, a substantial shareholder of the Company.
- (b) The amount is due to a company in which a deemed substantial shareholder of the Company is interested.

The amounts are unsecured and have no fixed terms of repayment.

These related companies have agreed not to demand repayment of the amounts until the Group and the Company are financially capable to do so. No demand for repayment from these related companies is expected in the next twelve months. Accordingly, the amounts are shown as non-current liabilities.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004**23. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY
THE GROUP**

The amount is unsecured, interest-free and has no fixed term of repayment. In the opinion of the directors of the Company, it is unlikely that the minority shareholder will demand for repayment of the amount until the subsidiary is financially capable to do so. No demand for repayment from the minority shareholder of the subsidiary is expected in the next twelve months. Accordingly, the amount is shown as a non-current liability.

The amount advanced to the subsidiary by the minority shareholder is considered as part of its contributions, together with paid up capital, made to finance the operations of the subsidiary. The minority shareholder of the subsidiary agreed that the advance can be used to make good the minority shareholder's share of the losses incurred by the subsidiary to the extent of the amount advanced to it, if requested by the Group to do so. The amount advanced to the subsidiary by the minority shareholder had been subsequently assigned to the Group as at 9th June, 2004 (see note 30(a)).

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

24. DEFERRED TAXATION

The following are the major deferred taxation (liability) asset recognised and movements thereon during the year:

	Development costs capitalised <i>HK\$'000</i>	Impairment loss recognised in respect of property under development <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
At 1st April, 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	(4,886)	4,886	–
	<u> </u>	<u> </u>	<u> </u>
– as restated	(4,886)	4,886	–
(Charge) credit to the consolidated income statement	(647)	647	–
	<u> </u>	<u> </u>	<u> </u>
At 31st March, 2003	(5,533)	5,533	–
Charge to the consolidated income statement	–	(5,533)	(5,533)
	<u> </u>	<u> </u>	<u> </u>
At 31st March, 2004	<u>(5,533)</u>	<u>–</u>	<u>(5,533)</u>

For the purpose of balance sheet presentation, deferred taxation asset and liability have been offset.

As at 31st March, 2004, the Group and the Company had unused tax losses of approximately HK\$112,133,000 (2003: HK\$109,244,000) available for offset against future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

As at 31st March, 2003, the Group had a deductible temporary difference of approximately HK\$93,062,000 arising from the impairment on the property under development. A deferred taxation asset attributable to the deductible temporary difference of approximately HK\$16,766,000 was recognised. No deferred taxation asset was recognised in respect of the remaining HK\$76,296,000 as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

There were no other significant temporary differences arising in the Group and the Company during the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

25. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	–	35,599
Properties under development	–	73,082
Properties held for sales	–	19,480
Inventories	–	264
Trade receivables	–	1,001
Deposits, prepayments and other receivables	–	2,210
Bank balances and cash	–	34,004
Trade payables	–	(1,058)
Accrued charges and other payables	–	(24,092)
Amounts due to minority shareholders of subsidiaries	–	(9,151)
Minority interests	–	4,035
Intercompany debts	–	(300,061)
	<hr/>	<hr/>
	–	(164,687)
Translation reserves realised	–	(8,102)
Assignment/waiver of intercompany indebtedness	–	300,061
Gain on disposal of subsidiaries	–	35,815
	<hr/>	<hr/>
	–	163,087
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	–	163,087
Deposits received in previous year	–	(15,200)
	<hr/>	<hr/>
	–	147,887
	<hr/> <hr/>	<hr/> <hr/>
Analysis of net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	–	147,887
Bank balances and cash disposed of	–	(34,004)
	<hr/>	<hr/>
	–	113,883
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries disposed of in the prior year contributed approximately HK\$31,439,000 to the Group's turnover and approximately HK\$21,480,000 to the Group's profit from operations.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

26. WINDING UP OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net liabilities of subsidiaries wound up comprise:		
Amounts due to minority shareholders of subsidiaries	–	(3,161)
Minority interests	–	3,836
Intercompany debts	–	(35,954)
	<hr/>	<hr/>
	–	(35,279)
Waiver of intercompany indebtedness	–	35,954
Loss on winding up of subsidiaries	–	(675)
	<hr/>	<hr/>
	–	–
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries wound up in the prior year did not have significant contribution to the Group's turnover and operating results for that year.

27. MAJOR NON-CASH TRANSACTIONS

- (a) During the year ended 31st March, 2003, the Group cancelled debentures of approximately HK\$50,647,000 at par by setting off against the net amount of the guaranteed income receivable of approximately HK\$53,236,000 and the accrued debenture interest of approximately HK\$2,589,000.
- (b) During the year ended 31st March, 2003, as result of the Capital Reduction, the Company reduced its issued share capital by approximately HK\$55,023,000. The amount reduced was first credited to the contributed surplus and then used to eliminate part of the accumulated losses of the Company.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

28. CAPITAL COMMITMENTS

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Authorised but not contracted for in respect of property development projects	2,917	2,917
Contracted for but not provided in the financial statements, net of deposits paid in respect of property development projects	61,041	61,045
	63,958	63,962

The Company had no significant capital commitments at the balance sheet date.

29. OPERATING LEASE COMMITMENTS

THE GROUP AS LESSEE

At the balance sheet date, the Group had an commitment for future minimum lease payments under a non-cancellable operating lease in respect of rented premise, which falls due as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	–	110
In the second to fifth year inclusive	–	192
	–	302

The lease was negotiated for a term of approximately three years.

The Company had no significant operating lease commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004**30. POST BALANCE SHEET EVENTS**

- (a) On 9th June, 2004, the Group completed its acquisition of the remaining 10% interest in Expert Pearl Investments Limited ("Expert Pearl"), a 90% owned subsidiary of the Group, from Star City Entertainment Holdings Limited ("Star City") through the acquisition of one share registered in the name of Star City, representing 10% of the entire issued share capital of Expert Pearl, and the loan outstanding from Expert Pearl to Star City, inclusive of the Star City Loan, as defined below, which was reassigned to Star City by Future Gain Investments Limited ("Future Gain"), a related company of the Group. The Star City Loan represented the loan advance of HK\$16,000,000 to Expert Pearl by Star City pursuant to the shareholders deed dated 10th July, 1995, which was subsequently assigned to Future Gain by Star City pursuant to three deeds dated 25th August, 1998, 31st August, 1999 and 15th May, 2001.

As consideration, the Group repaid Star City HK\$16,000,000 being the initial investment contributed by Star City to Expert Pearl, such payment was made to Future Gain as directed by Star City; and the Group waived all liabilities of Star City in the principal sum of approximately HK\$17,658,000 and all interest thereon of approximately HK\$20,172,000, amounted in aggregate to approximately HK\$37,830,000 owed to the Group as at 9th June, 2004. Details of the acquisition are set out in the Group's circular dated 20th May, 2004.

- (b) On 26th May, 2004, the Group entered into a conditional cooperative joint venture agreement ("JV Agreement") with Shenzhen Lianhe Jinhao Investment Development Co. Ltd. ("JV Partner") to jointly develop the site in Shanghai ("Property") owned by the Group. In accordance with the JV Agreement, the Group agreed to contribute the Property (with all the remaining removal and infrastructure charges in relation to the Property in the sum of US\$4,218,339 (approximately HK\$32,903,000) ("Remaining Charges") being paid) as its contribution to the joint venture arrangement whereas the JV Partner agreed to be responsible for (i) the construction work of the Property at its own cost from the date of the JV Agreement becoming unconditional, the estimated amount of construction cost being RMB520,000,000 (approximately HK\$490,566,000); and (ii) any future tax which may be incurred by the Group in relation to the development of the Property and the income tax arising out of the JV Partner's entitlements in the joint venture arrangement. At the date of approval of the financial statements, the JV Agreement is subject to the approval of the shareholders of the Company in the special general meeting of the Company to be held on 16th July, 2004. Details of the joint venture arrangement are set out in the Group's circular dated 30th June, 2004.
- (c) The Group had entered into an agreement with Chongqing Hong Tai Property Development Co., Ltd. ("Hong Tai") to acquire certain units and car parking space at Chongqing Hong Tai Building ("Hong Tai Building"). During the year, the Group commenced legal proceedings against Hong Tai due to the failure of Hong Tai to complete and deliver the said units and car parking spaces in accordance with the said agreement. A court judgment was issued on 12th April, 2004 under which Hong Tai was ordered to deliver the said units and car parking spaces or to refund the sum of RMB29.05 million (approximately HK\$25.9 million) together with accrued interest to the Group. The Group has recently been informed that the Hong Tai Building had been sold and the Group would be entitled to part of the sale proceeds. The amount paid for the acquisition of the units and car parking spaces had been fully provided by the Group in the previous years.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

31. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group had the following significant transactions with related parties:

	2004	2003
	HK\$'000	HK\$'000
Interest from minority shareholders of subsidiaries <i>(note (ii))</i>	2,193	2,454
Interest to a related company <i>(notes (i) and (ii))</i>	679	9,606
Management fees to related companies <i>(notes (i) and (iii))</i>	240	985
Secretarial fee to a related company <i>(notes (i) and (iv))</i>	347	320
	<u>3,459</u>	<u>13,365</u>

Notes:

- (i) Certain director and substantial shareholders of the Company have beneficial or deemed interests in the above related companies.
- (ii) The interest was calculated by reference to the principal outstanding and at the prevailing market interest rates.
- (iii) The management fees were charged on a cost basis.
- (iv) The transaction was carried out after negotiations between the Group and the related company and on basis of estimated market value as determined by the directors of the Company.
- (b) On 29th March, 2003, the Group disposed of its 100% equity interest in the Lacework Group and the shareholder's loan outstanding from the Lacework Group to a wholly-owned subsidiary of Emperor International Holdings Limited, the substantial shareholder of the Company, for a cash consideration of approximately HK\$126,637,000. A gain of approximately HK\$8,112,000 arose from the disposal of the Lacework Group.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31st March, 2004

32. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary share/ registered capital	The Group's attributable equity interest %	Principal activities
Indirectly held					
Emperor (Shanghai) Co., Ltd.	PRC – foreign investment enterprise	PRC	US\$30,000,000	90	Property development
Harbour Assets Limited	British Virgin Islands	PRC	US\$1	100	Property investment
Shanghai Star City Department Co., Ltd.	PRC – sino-foreign cooperative joint venture	PRC	US\$606,004	99	In the process of liquidation

None of the subsidiaries of the Company issued any debt securities as at 31st March, 2004.

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