

Notes to the Financial Statements

For the year ended 31st March, 2004

1. CORPORATE INFORMATION

The registered office and the principal place of business of the Company is located at 18th Floor, Hang Seng Building, 77 Des Voeux Road Central, Hong Kong. Its ultimate holding company is Lucky Year Finance Limited (“Lucky Year”), an international business company incorporated in the British Virgin Islands.

During the year, the Group was involved mainly in property development and property investment activities.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

SSAP 12 (Revised) “Income tax” is effective for the first time for the current year’s financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on measurement and recognition of income taxes on these financial statements is that deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. Also, a deferred tax liability has been recognised on the revaluation of the Group’s investment properties and on the fair value adjustments arising from the acquisitions of subsidiaries.

The related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 27 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 27 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st March, 2004, together with the Group's share of the post-acquisition results of its jointly-controlled entities and associates on the basis as set out below. The results of its subsidiaries, jointly-controlled entities and associates acquired or disposed of during the year are consolidated or equity accounted for from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint venture companies *(Continued)*

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of a fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost less any residual value of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	5% or over the unexpired terms of the leases
Leasehold improvements	20%
Furniture and equipment	20%
Motor vehicles	20%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Fixed assets and depreciation** *(Continued)*

The gain or loss on disposal of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties under development

Properties under development are stated at cost and include the cost of land, construction, financing and other related expenses, less any impairment losses.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Properties held for sale

Properties held for sale, consisting of completed properties and properties under development in respect of which the Group has established pre-sale programmes, are classified under current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions, on an individual property basis.

Profit arising on the pre-sale of properties under development is recognised over the course of the development and is calculated on each project as a proportion of the total estimated profit to completion, after taking into account further costs to completion. The proportion used is the estimated construction costs of pre-sold units over the total estimated construction costs of the property under development. The profit per pre-sold unit so recognised is restricted to the amount of instalments received and receivable under legally binding contracts at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Convertible guaranteed bonds

Convertible guaranteed bonds are stated at cost.

Deferred charges

Charges relating to expenses incurred for bond issues are deferred and amortised, using the straight-line method, over the period of the bonds' existence.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) income from the sale of completed properties, when a legally binding sale and purchase contract is signed. Income from the pre-sale of properties under development is recognised over the course of development (as more fully described under the accounting policy "Properties held for sale" above);
- (b) rental income, on the straight-line basis over the lease terms;
- (c) property management income, in the period in which services are rendered; and
- (d) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Employee benefits***Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 16% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

With respect to investments in certain overseas subsidiaries which are financed by way of loans that are not repayable in the foreseeable future, rather than equity, the resulting exchange differences on translation are included in the exchange fluctuation reserve. In the opinion of the directors, such loans are for practical purposes as permanent as equity and, accordingly, are treated as part of the Company's net investment in the enterprises.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the property development segment develops properties for sale;
- (b) the property investment segment holds investment properties for the generation of rental income; and
- (c) the "others" segment comprises miscellaneous rental income generated from properties held by the Group other than investment properties and property management service fees income.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

During the current and prior years, there were no intersegment transactions.

4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments.

	Property development		Property investment		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Restated)		(Restated)
Segment revenue:								
Sales to external customers	<u>266,742</u>	<u>416,386</u>	<u>58,076</u>	<u>47,918</u>	<u>5,909</u>	<u>9,573</u>	<u>330,727</u>	<u>473,877</u>
Segment results	<u>(34,317)</u>	<u>(357,926)</u>	<u>219,327</u>	<u>(60,861)</u>	<u>1,671</u>	<u>3,301</u>	<u>186,681</u>	<u>(415,486)</u>
Interest income							2,595	1,065
Unallocated gains							1,983	604
Unallocated expenses							<u>(26,168)</u>	<u>(32,492)</u>
Profit/(loss) from operating activities							165,091	(446,309)
Interest expenses							<u>(29,230)</u>	<u>(31,873)</u>
Amortisation of bond issue expenses							(55)	(1,154)
Share of profits and losses of jointly-controlled entities	86,342	1,477	-	-	(36)	(23)	86,306	1,454
Write off of loans to jointly-controlled entities	<u>(84,488)</u>	-	-	-	-	-	<u>(84,488)</u>	-
Profit/(loss) before tax							137,624	(477,882)
Tax							<u>(3,157)</u>	<u>(2,908)</u>
Profit/(loss) before minority interests							134,467	(480,790)
Minority interests							<u>(52)</u>	<u>1,646</u>
Net profit/(loss) from ordinary activities attributable to shareholders							<u>134,415</u>	<u>(479,144)</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Property development		Property investment		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Restated)				(Restated)
Segment assets	1,663,792	1,322,970	1,273,940	937,420	2,418,826	2,178,212	(2,326,182)	(2,155,804)	3,030,376	2,282,798
Interests in jointly-controlled entities	3,697	2,442	-	-	-	-	-	-	3,697	2,442
Interest in an associate	14,857	14,857	-	-	-	-	-	-	14,857	14,857
Unallocated assets									48	54
Total assets									<u>3,048,978</u>	<u>2,300,151</u>
Segment liabilities	1,470,750	1,347,683	965,030	873,050	7,370	36,577	(2,326,182)	(2,155,804)	116,968	101,506
Unallocated liabilities									<u>1,663,189</u>	<u>1,382,466</u>
Total liabilities									<u>1,780,157</u>	<u>1,483,972</u>
Other segment information:										
Depreciation of fixed assets recognised in the profit and loss account	595	613	58	11	869	1,423	-	-	1,522	2,047
Amortisation of bond issue expenses recognised in the profit and loss account	-	-	55	1,154	-	-	-	-	55	1,154
Impairment losses recognised/ (written back) in the profit and loss account	(11,427)	366,776	-	-	-	-	-	-	(11,427)	366,776
Revaluation deficit/(surplus) recognised in the profit and loss account	-	-	(184,155)	94,836	-	-	-	-	(184,155)	94,836
Other non-cash (income)/ expenses	-	316	-	(82)	299	1,826	-	-	299	2,060
Additions to fixed assets	1,120	555	410	22	336	65	-	-	1,866	642
Surplus recognised in investment properties revaluation reserve	-	-	(7,347)	-	-	-	-	-	<u>(7,347)</u>	<u>-</u>

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table present revenue, certain assets, and expenditure information for the Group's geographical segments.

	Hong Kong		Mainland China		Malaysia		Canada		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	<u>281,120</u>	<u>124,376</u>	<u>3,058</u>	<u>317,881</u>	<u>11,151</u>	<u>12,058</u>	<u>35,398</u>	<u>19,562</u>	<u>-</u>	<u>-</u>	<u>330,727</u>	<u>473,877</u>
Other segment information:												
Segment assets	<u>2,318,590</u>	<u>1,960,743</u>	<u>787,979</u>	<u>540,608</u>	<u>189,645</u>	<u>189,954</u>	<u>234,905</u>	<u>104,396</u>	<u>(500,743)</u>	<u>(512,903)</u>	<u>3,030,376</u>	<u>2,282,798</u>
Additions to fixed assets	<u>746</u>	<u>65</u>	<u>1,120</u>	<u>555</u>	<u>-</u>	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,866</u>	<u>642</u>

5. TURNOVER AND OTHER REVENUE

Turnover represents income from the sale of properties, gross rental income and property management income.

An analysis of turnover and other revenue is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of properties	<u>266,742</u>	<u>416,386</u>
Gross rental income	<u>60,811</u>	<u>54,439</u>
Property management income	<u>3,174</u>	<u>3,052</u>
	<u>330,727</u>	<u>473,877</u>
Other revenue		
Interest income from bank deposits	<u>1,856</u>	<u>559</u>
Interest income from mortgages	<u>327</u>	<u>506</u>
Other interest income	<u>412</u>	<u>-</u>
Other property management income	<u>4,325</u>	<u>1,197</u>
Others	<u>2,743</u>	<u>1,841</u>
	<u>9,663</u>	<u>4,103</u>

6. RELATED PARTY TRANSACTIONS

In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following related party transactions during the year.

- (a) During the year, the Group had transactions with companies in which James Sai-Wing Wong, Madeline May-Lung Wong and William Chung-Yue Fan, directors of the Company, have beneficial interests. The significant transactions are summarised below.

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Construction costs paid to related companies	(i)	–	11,976
Interests paid to the immediate holding company	(ii)	3,713	–
Interests paid to a substantial shareholder	(ii)	–	14,100
Commissions paid to the ultimate holding company	(iii)	2,625	–
Commissions paid to a substantial shareholder	(iii)	–	2,625
Underwriting commissions paid to the immediate holding company	(iv)	2,632	–
Management fee paid to the immediate holding company	(v)	2,000	–
Legal and professional fees paid to a firm of solicitors to which a director of the Company is a consultant	(vi)	1,049	534

Notes:

- (i) *The construction costs paid to related companies in last year were agreed on an individual contract basis between the respective parties. Such costs were negotiated and charged on bases similar to those under contracts with third parties.*
- (ii) *The interests were paid to the immediate holding company/substantial shareholder as a result of:*
- Interest payable at a fixed coupon rate of 10% per annum on the Bonds (as defined below) held by the immediate holding company/substantial shareholder;*
 - Interest payable at normal commercial rate on deferral of the redemption date of the Bonds held by the immediate holding company/substantial shareholder from 22nd April, 2003 (original maturity date) to 21st May, 2003 (date of completion of the rights issue); and*
 - Interest payable at normal commercial rate on the bridging finance facilities provided by the immediate holding company/substantial shareholder.*

6. RELATED PARTY TRANSACTIONS (Continued)

Notes (Continued):

- (iii) *The commissions were paid to the substantial shareholder/ultimate holding company for the provision of cash security for certain bank loans granted to the Company and was agreed and charged on bases taking into consideration the average borrowing cost of the Group. Please refer to paragraph (c) below for details.*
 - (iv) *The underwriting commissions were paid to the immediate holding company for underwriting of the rights issue of the Company.*
 - (v) *Management fee was charged based on the underlying costs incurred by the immediate holding company.*
 - (vi) *The directors consider that the provision of legal and professional services was made according to the standard prices and conditions similar to those offered to other clients of the firm.*
- (b) In April 2001, the Group issued 10% convertible guaranteed bonds due April 2003 with a principal sum of HK\$300 million (the "Bonds"). Chinney Investments, Limited ("Chinney Investments"), as a substantial shareholder of the Company at that time and the immediate holding company of the Company as at 31st March, 2004 and Patrick Yen-Tse Tsai, as a director, subscribed for the Bonds in the principal amount of HK\$141 million and HK\$2 million respectively. The Bonds were issued and allotted to Chinney Investments and Patrick Yen-Tse Tsai under the same terms and conditions as other independent bondholders.
- (c) In May 2001, the Group obtained bank loan facilities of HK\$150 million through cash collateral provided by Lucky Year Finance Limited ("Lucky Year"), a substantial shareholder of the Company at that time and the ultimate holding company of the Company as at 31st March, 2004. In consideration for Lucky Year's provision of the cash security, the Group agreed to pay commission of 1.75% per annum on the average principal amount of the cash security outstanding during the term of the bank loans to Lucky Year and counter-indemnify Lucky Year in respect of the cash security by mortgaging the entire issued share capital of two of its subsidiaries and assigned shareholders' loans in an aggregate amount of HK\$220,245,000 to Lucky Year.

In December 2003, Lucky Year extended the cash security arrangement for a further period of 30 months under the same terms and conditions, save for the release of all securities provided by the Group.

- (d) On 12th February, 2003, Chinney Investments entered into an underwriting agreement with the Company on a rights issue of 200,123,100 rights shares at a subscription price of HK\$1.00 per share (the "Rights Issue"). Pursuant to the agreement, Chinney Investments undertook to subscribe for 94,842,711 rights shares and agreed to underwrite the remaining portion of 105,280,389 rights shares at a commission of 2.5%.

Upon Completion of the Rights Issue on 21st May, 2003, Chinney Investments was issued and allotted a total of 168,210,078 rights shares and received HK\$2,632,000 from the Company as underwriting commission.

6. RELATED PARTY TRANSACTIONS *(Continued)*

- (e) On 12th February, 2003, the Company and Hon Kwok Land Treasury II Limited, a wholly-owned subsidiary of the Company, entered into a payment arrangement deed with Chinney Investments, whereby all parties agreed that the redemption monies of HK\$141 million of the Bonds held by Chinney Investments be applied towards payment of part of or the whole of the subscription monies for the shares subscribed by Chinney Investments under the rights issue. The deed was subsequently amended on 31st March, 2003, whereby all parties agreed that the redemption of the Bonds held by Chinney Investments be deferred upon completion of the rights issue with interests being charged at normal commercial terms.
- (f) On 31st March, 2003, the Company entered into an agreement for a bridging facility with Chinney Investments whereby Chinney Investments agreed to provide financing to the Company to partly finance the redemption of the Bonds.

The Group paid interest at normal commercial rate in respect of bridging finance facilities provided by Chinney Investments.

- (g) On 26th August, 2003, the Group entered into an agreement with a wholly-owned subsidiary of Chinney Alliance Group Limited, an associate of Chinney Investments, for the acquisition of the entire issued share capital of China Parking (BVI) Limited and related shareholders' loans for a cash consideration of HK\$15 million. The consideration was arrived at after arm's length negotiation and determined by reference to the unaudited consolidated net tangible assets of China Parking (BVI) Limited and its subsidiaries of approximately HK\$14.7 million as at 30th June, 2003. The above transaction was completed on 22nd October, 2003.
- (h) The balances with the fellow subsidiaries and related companies are unsecured, interest-free, and have no fixed terms of repayment.

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	<i>Notes</i>	Group	2003
		2004	2003
		HK\$'000	HK\$'000
Cost of properties sold		309,509	403,890
Auditors' remuneration		1,109	1,155
Depreciation	15	1,522	2,047
Minimum lease payments under operating leases on land and buildings		1,971	1,802
Provision for bad debts		299	1,826
Provision against rental receivables		–	234
Staff costs (including directors' remuneration – note 9):			
Salaries and bonuses		12,395	19,905
Pension scheme contributions		793	821
		13,188	20,726
Gross rental income		(60,811)	(54,439)
Less: Outgoing expenses		26,420	17,804
		(34,391)	(36,635)
Loss on disposal of fixed assets		33	280
Exchange gains, net		(44)	(66)

At the balance sheet date, the amount of forfeited pension contributions available for future utilisation was not significant.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

8. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	(39,099)	(25,641)
Bank loans wholly repayable after five years	(2,101)	(7,061)
Convertible guaranteed bonds	(1,417)	(30,000)
Bank overdrafts	(178)	(57)
Other loans	(3,047)	–
	<u>(45,842)</u>	<u>(62,759)</u>
Less: Amounts capitalised under property development projects	16,612	30,886
	<u>(29,230)</u>	<u>(31,873)</u>
Other finance costs:		
Amortisation of bond issue expenses	(199)	(4,205)
Less: Amounts capitalised under property development projects	144	3,051
	<u>(55)</u>	<u>(1,154)</u>
Total finance costs	<u>(29,285)</u>	<u>(33,027)</u>

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees	100	100
Salaries, allowances and benefits in kind	–	1,508
Ex-gratia payment	–	5,000
Pension scheme contributions	–	95
	<u>100</u>	<u>6,703</u>

9. DIRECTORS' REMUNERATION (Continued)

Included in the above were the following payments to independent non-executive directors:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees	<u>100</u>	<u>100</u>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil	7	4
HK\$1 – HK\$1,000,000	2	2
HK\$6,500,001 – HK\$7,000,000	–	1
	<u>9</u>	<u>7</u>

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year do not include any director (2003: one, details of whose remuneration are set out in note 9 above). Details of the remuneration of the five (2003: four) non-director, highest paid employees are set out below:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	4,371	3,721
Pension scheme contributions	<u>299</u>	<u>258</u>
	<u>4,670</u>	<u>3,979</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

10. SENIOR EXECUTIVES' EMOLUMENTS (Continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of individuals	
	2004	2003
HK\$1 – HK\$1,000,000	3	2
HK\$1,000,001 – HK\$1,500,000	2	2
	<u>5</u>	<u>4</u>

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31st March, 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004 HK\$'000	2003 HK\$'000 (Restated)
Group:		
Current – Hong Kong		
Tax credit/(charge) for the year	(18)	6
Underprovision in prior years	(140)	–
Current – Elsewhere	(2,949)	(2,871)
Deferred	(47)	(43)
	<u>(3,154)</u>	<u>(2,908)</u>
Share of tax attributable to jointly-controlled entities (note 19)	(3)	–
Total tax charge for the year	<u>(3,157)</u>	<u>(2,908)</u>

11. TAX (Continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the principal statutory rate for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates, is as follows:

Group

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit/(loss) before tax	<u>137,624</u>	<u>(477,882)</u>
Tax at the statutory rate of 17.5% (2003: 16%)	(24,084)	76,461
Effect of different rates for companies operating in other jurisdictions	(55)	(1,281)
Adjustments in respect of current tax of previous periods	(140)	–
Income not subject to tax	32,682	3,585
Expenses not deductible for tax	(6,267)	(26,647)
Tax losses utilised from previous periods	3,664	7
Tax losses not recognised	(9,794)	(55,697)
Tax effect of share of profits and losses of jointly-controlled entities	315	233
Others	<u>522</u>	<u>431</u>
Tax charge at the Group's effective rate	<u>(3,157)</u>	<u>(2,908)</u>

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st March, 2004 dealt with in the financial statements of the Company was HK\$29,176,000 (2003: net loss of HK\$391,588,000) (note 29(b)).

13. DIVIDEND

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Proposed final – 6 cents (2003: Nil) per ordinary share	<u>24,014</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders of HK\$134,415,000 (2003 (restated): net loss of HK\$479,144,000) and the weighted average of 309,115,000 (2003: 133,415,401) ordinary shares in issue during the year, as adjusted to reflect the share consolidation and rights issue during the year.

There has been no dilutive effect on the basic earnings per share for the year ended 31st March, 2004 as there were no outstanding convertible guaranteed bonds and share options at year end.

Diluted loss per share for the year ended 31st March, 2003 had not been disclosed, as all of the convertible guaranteed bonds and share options outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

15. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At 1st April, 2003	2,531	5,634	9,254	-	17,419
Additions	-	-	902	964	1,866
Acquisitions of subsidiaries	-	-	78	-	78
Disposals	-	-	(812)	-	(812)
At 31st March, 2004	2,531	5,634	9,422	964	18,551
Accumulated depreciation:					
At 1st April, 2003	389	5,250	7,244	-	12,883
Provided during the year	114	369	938	101	1,522
Disposals	-	-	(779)	-	(779)
At 31st March, 2004	503	5,619	7,403	101	13,626
Net book value:					
At 31st March, 2004	2,028	15	2,019	863	4,925
At 31st March, 2003	2,142	384	2,010	-	4,536

The leasehold land and buildings are situated in Mainland China and held under long term leases.

15. FIXED ASSETS (Continued)

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1st April, 2003	5,347	5,702	11,049
Additions	–	19	19
Disposals	–	(11)	(11)
	<u>5,347</u>	<u>5,710</u>	<u>11,057</u>
At 31st March, 2004	<u>5,347</u>	<u>5,710</u>	<u>11,057</u>
Accumulated depreciation:			
At 1st April, 2003	4,975	5,156	10,131
Provided during the year	364	366	730
Disposals	–	(8)	(8)
	<u>5,339</u>	<u>5,514</u>	<u>10,853</u>
At 31st March, 2004	<u>5,339</u>	<u>5,514</u>	<u>10,853</u>
Net book value:			
At 31st March, 2004	<u>8</u>	<u>196</u>	<u>204</u>
At 31st March, 2003	<u>372</u>	<u>546</u>	<u>918</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

16. PROPERTIES UNDER DEVELOPMENT

Group

	Cost <i>HK\$'000</i>	Development expenditure <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2003	226,056	77,512	303,568
Additions	150,000	9,803	159,803
Reversal of impairment/(impairment)	20,000	(8,573)	11,427
Disposals	(24,496)	(4,300)	(28,796)
Disposal of a subsidiary	–	(3,274)	(3,274)
Exchange realignment	6,016	958	6,974
At 31st March, 2004	<u>377,576</u>	<u>72,126</u>	<u>449,702</u>

The additions to development expenditure included interest expenses and other borrowing costs totalling HK\$3,195,000 (2003: HK\$12,497,000) incurred and capitalised during the year.

Details of the properties under development are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Medium term leases:		
Hong Kong	327,506	161,283
Long term leases:		
Mainland China	93,399	92,464
Freehold property in Canada	28,797	49,821
	<u>449,702</u>	<u>303,568</u>

Certain of the Group's properties under development were pledged to secure banking facilities granted to the Group as detailed in note 25.

Owing to the recovery of the property market in Hong Kong during the current year, impairment losses recognised in prior years were partially reversed to the extent considered necessary.

17. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1st April	930,775	893,150
Additions, at cost	5,498	132,461
Acquisitions of subsidiaries	138,100	–
Revaluation surplus/(deficit) arising during the year and credited/(charged) to the consolidated profit and loss account	184,155	(94,836)
Revaluation surplus arising during the year and credited to the investment properties revaluation reserve	7,347	–
	<u>1,265,875</u>	<u>930,775</u>
At 31st March, at valuation	<u>1,265,875</u>	<u>930,775</u>
Analysis by type and location:		
Long term leasehold land and buildings in Hong Kong	718,000	528,000
Medium term leasehold land and buildings in Hong Kong	360,100	215,000
Freehold land and buildings in Malaysia	187,775	187,775
	<u>1,265,875</u>	<u>930,775</u>

At the balance sheet date, all of the investment properties were revalued on the basis of their open market values by Knight Frank or Henry Butcher Malaysia Sdn. Bhd. (chartered surveyors). The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32 to the financial statements.

All the Group's investment properties were pledged to secure banking facilities granted to the Group as detailed in note 25.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	8	8
Due from subsidiaries	2,909,119	2,599,456
Impairment provision	(693,238)	(693,238)
	<u>2,215,889</u>	<u>1,906,226</u>
Due to subsidiaries	(873,221)	(904,700)
	<u>1,342,668</u>	<u>1,001,526</u>

18. INTERESTS IN SUBSIDIARIES (Continued)

The balances with subsidiaries are unsecured, interest-free, and have no fixed terms of repayment, except for an amount due from a subsidiary of HK\$178,669,000 (2003: HK\$168,961,000) which is not repayable in the foreseeable future. Although the remaining balances are technically currently repayable under the original terms of the transactions giving rise thereto, they have been deferred or subordinated for the longer term and are therefore classified as non-current.

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore, the following list contains only the particulars of subsidiaries which materially affected the results or assets and liabilities of the Group.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Champion Fine International Investments Inc.*	Canada	C\$1	–	100	Property development
China Parking Limited	Hong Kong	HK\$2	–	100	Property holding
Chinney Property Management Limited	Hong Kong	HK\$100	–	100	Property management
Cosmos Wealth Development Limited	Hong Kong	HK\$1,000	–	100	Property development
CP Management Limited	Hong Kong	HK\$2	–	100	Carpark management
Crown Honour Developments Limited	Hong Kong	HK\$2	100	–	Provision of nominee services
Debest Development Limited	Hong Kong	HK\$2	–	100	Property development

18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Full Yip Development Limited	British Virgin Islands	US\$1	–	100	Property holding and letting
Golden Country Development Limited	Hong Kong	HK\$2	–	100	Property development
Hon Cheong Limited	Hong Kong	HK\$2	–	100	Property holding and letting
Hon Kwok Land Investment (China) Limited	Hong Kong	HK\$2	100	–	Investment holding
Hon Kwok Land Investment (Shenzhen) Co., Ltd.*#	Mainland China	HK\$30,000,000	–	100	Property development
Hon Kwok Land Treasury II Limited	British Virgin Islands	US\$1	100	–	Financing
Hon Kwok Project Management Limited	Hong Kong	HK\$2	100	–	Project management
Honbest Investment Limited	Hong Kong	HK\$2	–	100	Property development
Honour Well Development Limited	Hong Kong	HK\$2	–	100	Property holding and letting
Island Parking Limited	British Virgin Islands	US\$10	–	100	Property holding and letting

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
King Capital Development Limited	Hong Kong	HK\$2	–	100	Property holding and letting
King Champion Limited	Hong Kong	HK\$2	–	100	Property holding and letting
Lido Parking Limited	British Virgin Islands	US\$1	–	100	Property holding and letting
Nanhai Xin Da Real Estate Development Co., Ltd.*#	Mainland China	HK\$90,480,000	–	80	Property development
One City Hall Place Limited*	Canada	C\$100	–	75	Property development
Pacific Corporate Services Limited	Hong Kong	HK\$2	100	–	Provision of corporate services
Prime Best Development Limited	Hong Kong	HK\$2	–	100	Property development
Shenzhen Honkwok Huaye Development Co., Ltd.*#	Mainland China	RMB50,000,000	–	80	Property development
Spark Eagle Development Limited	Hong Kong	HK\$2	100	–	Property holding and letting

18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Star World Property Limited	Hong Kong	HK\$2	–	100	Property development
Sunny Land Sdn. Bhd.	Malaysia	M\$2	100	–	Property management
Victory Venture Development Limited	Hong Kong	HK\$2	–	100	Property development
Wide Fame Investment Limited	Hong Kong	HK\$2	–	100	Property development
Wise Pacific Investment Limited	Hong Kong	HK\$10,000	–	60	Money lending

* Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.

These subsidiaries are registered in Mainland China as foreign enterprises with a business duration between 15 to 50 years.

All subsidiaries operate in their place of incorporation/registration, except for Spark Eagle Development Limited which operates in Malaysia and Full Yip Development Limited, Island Parking Limited and Lido Parking Limited which operate in Hong Kong.

Except for Hon Kwok Land Treasury II Limited, none of the subsidiaries had any loan capital outstanding at the balance sheet date or at any time during the year.

The subsidiary disposed of during the year did not have any significant impact on the Group's turnover and results.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

Share of profits and losses of jointly-controlled entities:

	Group	
	2004 HK\$'000	2003 HK\$'000
Operating profit, net	1,818	1,454
Waiver of shareholder's loans	84,488	–
	<u>86,306</u>	1,454
Share of tax attributable to jointly-controlled entities (note 11)	(3)	–
	<u>86,303</u>	<u>1,454</u>

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	–	–	–	–
Share of net assets less liabilities, other than goodwill	(10,593)	(96,896)	–	–
	<u>(10,593)</u>	(96,896)	–	–
Due from jointly-controlled entities, net	14,290	99,338	3,873	3,873
	<u>3,697</u>	<u>2,442</u>	<u>3,873</u>	<u>3,873</u>

During the year, the Group and its joint venture partner wrote off the shareholders' loans which were non-recoverable from jointly-controlled entities. The corresponding debit of HK\$84,488,000 was recognised as write off of loans to jointly-controlled entities whilst the corresponding credit of HK\$84,488,000 was recognised as share of profits of jointly-controlled entities.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

The Group's share of the post-acquisition accumulated losses of the jointly-controlled entities at 31st March, 2004 was HK\$55,588,000 (2003: HK\$141,891,000).

The amounts due from the jointly-controlled entities are unsecured, interest-free, and have no fixed terms of repayment. Although the amounts are technically currently receivable under the original terms of the transactions giving rise thereto, they have been deferred or subordinated for the longer term and are therefore classified as non-current.

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Cenford Investments Limited	Corporate	Hong Kong	50	50	50	Property development
Hunnewell Limited	Corporate	Hong Kong	50	50	50	Property development
King Success Limited	Corporate	Hong Kong	50	50	50	Property development

The above table includes the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Extracts of the financial statements as at 31st March, 2004 of the above principal jointly-controlled entities are as follows:

	2004 HK\$'000	2003 HK\$'000
Cenford Investments Limited		
Current assets	64	103
Current liabilities	(249)	(249)
Non-current liabilities	–	(131,980)
Income	131,975	–
Net profit/(loss) for the year	<u>131,942</u>	<u>(3,082)</u>
Hunnewell Limited		
Non-current assets	6,132	9,037
Current assets	11,498	10,441
Current liabilities	(33)	(120)
Income	541	2,199
Net profit/(loss) for the year	<u>(1,418)</u>	<u>1,089</u>
King Success Limited*		
Current assets	37,145	42,311
Current liabilities	(21,484)	(8,397)
Non-current liabilities	(18,181)	(78,565)
Income	29,640	45,811
Net profit for the year	<u>42,131</u>	<u>6,365</u>

* The financial year end of this company is 31st December.

20. INTEREST IN AN ASSOCIATE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–
Share of net assets	6,156	6,156
Due from an associate	8,701	8,701
	14,857	14,857

The amount due from the associate is unsecured, interest-free, and has no fixed terms of repayment. Although the amount is technically currently receivable under the original terms of the transactions giving rise thereto, it has been deferred or subordinated for the longer term and is therefore classified as non-current.

Particulars of the associate are as follows:

Name	Business structure	Place of registration and operation	Percentage of ownership interest attributable to the Group	Principal activities
Guangzhou Li Du Property Development Co., Ltd.	Corporate	Mainland China	49	Property development

21. PROPERTIES HELD FOR SALE

The carrying amount of properties held for sale carried at net realisable value is HK\$238,191,000 (2003: HK\$500,766,000).

Properties held for sale included interest expenses and other borrowing costs totalling HK\$13,561,000 (2003: HK\$21,440,000) incurred and capitalised during the year.

Certain of the Group's properties held for sale were pledged to secure banking facilities granted to the Group as detailed in note 25.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables are trade receivables of HK\$108,994,000 (2003: HK\$46,834,000). An aged analysis of trade receivables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 30 days	108,345	45,885
31 to 60 days	589	837
61 to 90 days	38	81
Over 90 days	22	31
Total	<u>108,994</u>	<u>46,834</u>

Monthly rent in respect of leased properties is payable in advance by the tenants pursuant to the terms of the tenancy agreements. The balance of consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreements. Overdue trade debts are followed up closely by management and are provided in full in case of non-recoverability.

The Company had no trade receivables included in prepayments, deposits and other receivables at the balance sheet date (2003: Nil).

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities are trade payables of HK\$8,974,000 (2003: HK\$4,769,000). An aged analysis of trade payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 30 days	<u>8,974</u>	<u>4,769</u>

The Company had no trade payables included in accounts payable and accrued liabilities at the balance sheet date (2003: Nil).

24. CONVERTIBLE GUARANTEED BONDS

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1st April	300,000	300,000
Redemption of the Bonds	(300,000)	–
At 31st March	<u>–</u>	<u>300,000</u>
10% Bonds due 2003	–	300,000
Portion classified as current liabilities	–	<u>(300,000)</u>
Non-current portion	<u>–</u>	<u>–</u>

On 18th April, 2001, a wholly-owned subsidiary of the Company issued 10% convertible guaranteed bonds due 2003 (the “Bonds”) with a principal sum of HK\$300 million. The unlisted Bonds were unconditionally and irrevocably guaranteed by the Company and bore interest at a rate of 10% per annum. The bondholders had the right, at any time on or after 18th April, 2001, up to and including 19th March, 2003, to convert the Bonds into then equity shares of the Company with a nominal value of HK\$0.10 at a conversion price, subject to adjustment in certain events, of HK\$0.40 per share.

During the year, the Bonds with a principal amount of HK\$159 million were redeemed at par upon their maturity on 22nd April, 2003. The remaining 10% Bonds held by Chinney Investments with a principal amount of HK\$141 million were redeemed at par upon completion of a rights issue on 21st May, 2003.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

25. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts:				
Unsecured	9,089	3,644	8,950	3,644
Bank loans:				
Secured	1,058,954	981,261	83,480	185,000
Unsecured	522,174	–	190,000	–
	<u>1,581,128</u>	<u>981,261</u>	<u>273,480</u>	<u>185,000</u>
	<u>1,590,217</u>	<u>984,905</u>	<u>282,430</u>	<u>188,644</u>
Bank overdrafts repayable:				
Within one year or on demand	9,089	3,644	8,950	3,644
Bank loans repayable:				
Within one year or on demand	310,696	450,711	108,780	150,000
In the second year	70,783	92,932	1,680	35,000
In the third to fifth years, inclusive	1,185,503	331,575	163,020	–
Beyond five years	14,146	106,043	–	–
	<u>1,581,128</u>	<u>981,261</u>	<u>273,480</u>	<u>185,000</u>
	<u>1,590,217</u>	<u>984,905</u>	<u>282,430</u>	<u>188,644</u>
Portion classified as current liabilities	<u>(319,785)</u>	<u>(454,355)</u>	<u>(117,730)</u>	<u>(153,644)</u>
Non-current portion	<u>1,270,432</u>	<u>530,550</u>	<u>164,700</u>	<u>35,000</u>

Certain bank loans are secured by mortgages on certain investment properties, properties under development and properties held for sale, with a carrying value of approximately HK\$1,886 million (2003: HK\$1,626 million), and assignments of rental income. Certain bank loans are also secured by time deposits of the Group amounting to approximately HK\$112 million (2003: Nil) and cash deposits equivalent to HK\$150 million (2003: HK\$150 million) provided by the ultimate holding company of the Company.

Irrevocable and unconditional guarantees have been given by the Company in respect of certain subsidiaries' borrowings. In addition, the Company has subordinated its loans to certain subsidiaries in favour of the relevant lending banks.

26. LOANS FROM MINORITY INTERESTS

The amounts due to minority shareholders of subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

27. DEFERRED TAX**Group**

The movement in deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	1,103	–	1,103
As restated	1,103	–	1,103
Deferred tax charged to the profit and loss account (note 11)	43	–	43
Deferred tax liabilities At 31st March, 2003	<u>1,146</u>	<u>–</u>	<u>1,146</u>
At 1st April, 2003			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	1,146	–	1,146
As restated	1,146	–	1,146
Acquisition of a subsidiary	189	–	189
Deferred tax charged to investment properties revaluation reserve	–	1,104	1,104
Deferred tax charged to the profit and loss account (note 11)	47	–	47
	<u>236</u>	<u>1,104</u>	<u>1,340</u>
Deferred tax liabilities At 31st March, 2004	<u>1,382</u>	<u>1,104</u>	<u>2,486</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

27. DEFERRED TAX (Continued)

The principal components of the Group's unrecognised net deferred tax assets are as follows:

	2004 HK\$'000	2003 HK\$'000
Tax losses carried forward available to offsetting future taxable profit	653,744	592,348
Accelerated tax depreciation	(125,671)	(66,483)
	<u>528,073</u>	<u>525,865</u>

The deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31st March, 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividend by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities as at 31st March, 2004 and 2003 by HK\$2,486,000 and HK\$1,146,000, respectively. As a consequence, the consolidated net profit/(loss) attributable to shareholders for the years ended 31st March, 2004 and 2003 have been impacted by additional tax charge of HK\$47,000 (excluding deferred tax charge of HK\$189,000 arising from acquisition of a subsidiary and HK\$1,104,000 arising from revaluation of the Group's investment properties) and HK\$43,000, respectively, and the consolidated retained profits at 1st April, 2003 and 2002 have been decreased by HK\$1,146,000 and HK\$1,103,000, respectively, as detailed in the consolidated statement of changes in equity.

28. SHARE CAPITAL

	Company	
	2004 HK\$'000	2003 HK\$'000
Authorised:		
1,750,000,000 (2003: 17,500,000,000) shares of HK\$1.00 (2003: HK\$0.10) each	<u>1,750,000</u>	<u>1,750,000</u>
Issued and fully paid:		
400,238,501 (2003: 1,334,154,019) shares of HK\$1.00 (2003: HK\$0.10) each	<u>400,239</u>	<u>133,415</u>

28. SHARE CAPITAL (Continued)

Pursuant to a court order dated 17th October, 2000, the nominal value of the shares of the Company was adjusted from HK\$0.50 to HK\$0.10 by way of a capital reduction. The authorised share capital of the Company was restored to its original amount of HK\$1,750,000,000 by the creation of an additional 14,000,000,000 new shares of HK\$0.10 each at the same time.

As a result of the capital reduction, a credit of HK\$533,658,876 based on the 1,334,147,191 shares of the Company then in issue was transferred from the share capital account to a special capital reserve account. The Company has undertaken that the special capital reserve:

- (a) shall not be treated as a realised profit; and
- (b) shall, for so long as the Company remains a listed company (as defined in the Companies Ordinance), be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance or any statutory re-enactment or modification thereof,

provided always that the amount standing to the credit of the special capital reserve may be reduced by (i) the aggregate of any increase in the issued capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration; or (ii) upon a capitalisation of distributable reserves after the capital reduction.

During the year, new shares were issued upon a rights issue and a share placement, details of which are described in note (b) and (c) below. Resulting from the issue of shares, HK\$310,179,000, representing the amount of shares issued together with the corresponding premium, was released from the special capital reserve and credited to retained profits.

During the year, the movements in share capital were as follows:

- (a) Pursuant to an ordinary resolution passed on 22nd April, 2003, every 10 issued and unissued ordinary shares of HK\$0.10 each of the Company were consolidated into one ordinary share of HK\$1.00 each (the "Consolidated Shares"). All the Consolidated Shares rank pari passu in all respects and have the rights and privileges and are subject to the restrictions contained in the memorandum and articles of association of the Company. Subsequent to the share consolidation taking effect, the authorised share capital of the Company became HK\$1,750,000,000, divided into 1,750,000,000 ordinary shares of HK\$1.00 each.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2004

28. SHARE CAPITAL (Continued)

- (b) Pursuant to an ordinary resolution passed on 22nd April, 2003, a rights issue was made on the basis of three rights shares (the “Rights Shares”) for every two existing shares held by shareholders on the register of members on 30th April, 2003, at a subscription price of HK\$1.00 per Rights Share. This resulted in the issue of 200,123,100 Rights Shares of HK\$1.00 each for a total cash consideration of HK\$200,123,100. The net proceeds of approximately HK\$195,000,000 from the issue of the Rights Shares have been utilised to partly finance the redemption of the Bonds.
- (c) On 25th February, 2004, the Company entered into a top-up placing arrangement with Chinney Investments and a placing agent pursuant to which the placing agent placed on an underwritten basis 66,700,000 existing shares held by Chinney Investments to independent third parties at a price of HK\$1.65 per share. Concurrently, Chinney Investments subscribed for 66,700,000 new shares of the Company also at the same price of HK\$1.65 per share. The subscription was completed on 10th March, 2004 and generated net cash proceeds of approximately HK\$107,000,000 for general working capital purpose.

A summary of the transactions during the year with reference to the above movements in the Company’s issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1st April, 2002 and 1st April, 2003	1,334,154,019	133,415	126,628	260,043
Share consolidation	(1,200,738,618)	–	–	–
Rights issue	200,123,100	200,124	–	200,124
Share placement	66,700,000	66,700	43,355	110,055
	<u>(933,915,518)</u>	<u>266,824</u>	<u>43,355</u>	<u>310,179</u>
Share issue expenses	–	–	(8,573)	(8,573)
At 31st March, 2004	<u>400,238,501</u>	<u>400,239</u>	<u>161,410</u>	<u>561,649</u>

29. RESERVES**(a) Group**

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

(b) Company

	Share premium account <i>HK\$'000</i>	Special capital reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002	126,628	533,659	647	10	414,157	-	1,075,101
Net loss for the year	-	-	-	-	(391,588)	-	(391,588)
At 31st March, 2003 and 1st April, 2003	126,628	533,659	647	10	22,569	-	683,513
Premium from share placement	43,355	-	-	-	-	-	43,355
Share issue expenses	(8,573)	-	-	-	-	-	(8,573)
Transfer on issue of shares	-	(310,179)	-	-	310,179	-	-
Net profit for the year	-	-	-	-	29,176	-	29,176
Proposed 2004 final dividend	-	-	-	-	(24,014)	24,014	-
At 31st March, 2004	161,410	223,480	647	10	337,910	24,014	747,471

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisitions of subsidiaries

	2004 HK\$'000
Net assets acquired:	
Fixed assets	78
Investment properties	138,100
Properties held for sale	3,100
Prepayments, deposits and other receivables	391
Cash and bank balances	717
Accounts payable and accrued liabilities	(1,296)
Customer deposits	(1,180)
Shareholders' loans	(347,190)
Interest-bearing bank borrowings	(109,889)
Minority interests	20
Deferred tax liabilities	(189)
	<u>(317,338)</u>
Write-off of negative goodwill arising from acquisition	(1,852)
	<u>(319,190)</u>
Consideration given	<u>(319,190)</u>
Satisfied by:	
Cash	28,000
Assignment of shareholders' loans	(347,190)
	<u>(319,190)</u>

An analysis of net outflow of cash and cash equivalents in connection with the acquisitions of subsidiaries:

	2004 HK\$'000
Cash consideration	28,000
Cash and bank balances acquired	(717)
	<u>27,283</u>

The subsidiaries acquired during the year ended 31st March, 2004 contributed approximately HK\$10,459,000 to the Group's turnover, and approximately HK\$1,725,000 to the Group's profit before tax.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**(b) Disposal of a subsidiary**

	2004
	HK\$'000
Net assets disposed of:	
Properties under development	3,274
Accounts payable and accrued liabilities	(257)
Amount due to a minority shareholder	(5,226)
Minority interests	3,198
	989
	989
Satisfied by cash consideration received, net	989

The subsidiary disposed of during the year did not contribute significantly to the Group's turnover and operating results.

31. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 16th September, 1993 for the primary purpose of providing incentives to any employee (including any executive director) of the Company or any of its subsidiaries.

There were no outstanding options as at 1st April, 2003. No options were granted, exercised, cancelled or lapsed from 1st April, 2003 up to the expiry date of the scheme on 16th September, 2003.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 17 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31st March, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	34,712	24,196
In the second to fifth years, inclusive	35,171	8,262
Beyond five years	8,182	–
	78,065	32,458

(b) As lessee

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31st March, 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	1,393	2,637	1,310	2,554
In the second to fifth years, inclusive	–	1,310	–	1,310
	1,393	3,947	1,310	3,864

There are no amounts relating to jointly-controlled entities included in the above annual commitments under non-cancellable operating leases in respect of land and buildings (2003: Nil).

33. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had authorised and contracted capital commitments in respect of property development expenditure amounting to approximately HK\$309,210,000 (2003: HK\$159,286,000) at the balance sheet date.

There are no authorised and contracted capital commitments in respect of property development expenditure relating to jointly-controlled entities included in the above (2003: Nil).

34. CONTINGENT LIABILITIES

(a)

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in connection with facilities granted to:				
– subsidiaries	–	–	1,307,648	796,261
– a jointly-controlled entity	7,902	11,765	7,902	11,765
	<u>7,902</u>	<u>11,765</u>	<u>1,315,550</u>	<u>808,026</u>

As at 31st March, 2004, the bank facilities granted to the subsidiaries and a jointly-controlled entity, subject to guarantees given to the banks by the Company, were utilised to the extent of approximately HK\$1,307,648,000 (2003: HK\$796,261,000) and HK\$7,902,000 (2003: HK\$11,765,000), respectively. The bank facilities guaranteed by the Group to a jointly-controlled entity were utilised to the extent of approximately HK\$7,902,000 (2003: HK\$11,765,000).

34. CONTINGENT LIABILITIES (Continued)

- (b) On 20th April, 1996, a writ was filed against a wholly-owned subsidiary of the Group, Joint Peace Investment Limited (“Joint Peace”), regarding an alleged disparity between the pavement and the ground floor level of the building at 18-22 Percival Street, junction of Jaffe Road, Causeway Bay, Hong Kong. The amount claimed, excluding minor construction and related costs, was either HK\$41,000,000 or HK\$69,300,000, representing the claim for a loss of rental income or a loss of interest on the purchase price, over a period of 12 months. A defence to contest this claim was filed on 22nd July, 1996.

On 2nd December, 1997, the plaintiff of this claim was allowed to amend the Writ of Summons and the Statement of Claim dated 20th April, 1996. Under advice by its solicitors, an Amended Defence in respect thereof was filed by Joint Peace on 30th December, 1997. On the same date, a Request for Further and Better Particulars of the Amended Statement of Claim was sent by Joint Peace’s solicitors to the plaintiff’s solicitors.

Following consultation with legal advisers (in their capacity as the legal advisers of Joint Peace), the directors formed the view that the amended claim was unlikely to succeed and were therefore of the opinion that no provision regarding this claim is necessary in the Group’s financial statements. There has been no further progress of the claim so far up to the date of this report.

- (c) The Company is currently appealing against a tax assessment of approximately HK\$2,959,000 raised by the Hong Kong Inland Revenue Department regarding the taxability of a certain gain recognised in prior years. Having taken into account professional advice, the directors considered that the gain is capital in nature and no provision regarding this assessment is necessary in the financial statements.

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year’s presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13th July, 2004.