

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 1. CORPORATE INFORMATION

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Fujian Investment and Development Company Limited, a state-owned corporation in the PRC.

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

### 2. FINANCIAL RESTRUCTURING

The Company received a winding-up petition on 15 January 2003 issued by one of the creditor banks. Pursuant to an Order of the Hong Kong Court ("Court") made on 15 January 2003, Messrs. Cosimo Borrelli and Fan Wai Kuen of RSM Nelson Wheeler Corporate Advisory Services Limited were appointed joint and several provisional liquidators ("the Provisional Liquidators") of the Company to preserve the assets and the current operations of the Group while facilitating a restructuring of its debts and financial affairs.

On 25 April 2003, the Company, the Provisional Liquidators and HC Technology Capital Company Limited ("HC Technology") together with the Company's then substantial shareholder, Sino Earn Holdings Limited ("Sino Earn") and a company related to Sino Earn, Jian Xing Finance Limited ("Jian Xing") entered into a restructuring agreement (the "Restructuring Agreement") which were related to the financial restructuring of the Group (the "Financial Restructuring"). The Provisional Liquidators announced that the conditions precedent under the Restructuring Agreement had been satisfied and that the Financial Restructuring was completed on 11 December 2003.

Following the completion of the Financial Restructuring on 11 December 2003, each of the Provisional Liquidators were released and discharged as joint and several provisional liquidators of the Company pursuant to the order of the Court.

The trading of the Company's shares on the Stock Exchange resumed on 17 December 2003.

Details of the Financial Restructuring were set out in the Company's circular and announcements dated 9 October 2003, 3 November 2003, 25 November 2003, 11 December 2003 and 16 December 2003 respectively, and are summarised as follows:

#### (a) Restructuring the Company's share capital

The nominal value of each issued share was reduced from HK\$0.125 to HK\$0.0125. The Company's issued share capital of HK\$134,291,046 was reduced by HK\$120,861,941 to HK\$13,429,105 comprising 1,074,328,367 shares of HK\$0.0125 each. The amount of HK\$120,861,941 arising from the capital reduction was applied to reduce the same amount of the accumulated losses of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 2. FINANCIAL RESTRUCTURING (continued)

#### (b) Restructuring the Group's obligations to creditors and secured creditors

By an Order of the Hong Kong High Court ("Court") dated 6 November 2003, the Company was directed to convene a scheme meeting of the unsecured creditors for the purpose of considering and approving the Scheme of Arrangement (the "Scheme") proposed to be made between the Company and the Scheme Creditors ("Scheme Creditors Meeting"). A Notice of Scheme Creditors Meeting was given to the Scheme Creditors on 7 November 2003 and a set of the Scheme Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to Section 166 of the Companies Ordinance was enclosed. The Scheme Creditors Meeting was held on 25 November 2003 and the Scheme was approved.

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

As part of the Restructuring Agreement, the secured loans from Sino Earn and Jian Xing were partly waived by the said parties. The remaining of the loans were settled by execution of certain charged shares and the issue of 380,965,823 and 151,393,534 ordinary shares to Sino Earn and Jian Xing at HK\$0.125 each respectively.

#### (c) Issue of new ordinary shares in the Company

Immediately following the implementation of the Scheme on 11 December 2003, HC Technology subscribed and the Company allotted and issued 2,792,413,792 ordinary shares at HK\$0.0145 each, of which HK\$34,000,000 was satisfied by cash and HK\$6,490,000 by settlement of the same amount of debts due to HC Technology.

Upon the completion of the Financial Restructuring on 11 December 2003, HC Technology became the immediate holding company of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted the following Hong Kong Financial Reporting Standards ("HKFRs") newly issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRs is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA.

#### Income taxes

The Group has adopted SSAP 12 (Revised) which became effective for the current year. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, deferred tax is accounted for at the current taxation in respect of timing differences between profits as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is 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. Comparative amounts have been restated accordingly.

As detailed in note 28 to the financial statements, the accumulated losses as at 1 April 2002 and 2003 have been increased by HK\$12,074,970 and HK\$9,119,852, respectively, which represented the provided deferred tax liability. This change has resulted in an increase in deferred tax liability at 31 March 2004 by HK\$4,729,278 (2003: HK\$9,119,852). As a consequence, the net profit attributable to the shareholders for the years ended 31 March 2004 has been increased by HK\$4,390,574 (2003: HK\$2,955,118).

### 4. PRINCIPAL ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements have been prepared in accordance with SSAPs and interpretations approved by the HKSA, accounting principles generally accepted in Hong Kong, the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

#### (b) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost as modified by the revaluation of certain investment properties.

#### (c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (c) Basis of consolidation (continued)

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its identifiable assets and liabilities together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

#### (d) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors or equivalent governing body.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (e) Jointly controlled entities

A jointly controlled entity is an entity which through contractual arrangements is subject to joint control by the Group and other parties, and none of the participating parties has unilateral control over the entity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

In the Company's balance sheet, investments in jointly controlled entities are stated at cost less provision for impairment losses. Such provision is determined and made for each jointly controlled entity individually.

The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

#### (f) Associates

An associate is an entity, not being a subsidiary or jointly controlled entity, in which an equity interest is held for the long term and significant influence is exercised in its management.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (f) Associates (continued)

The consolidated income statement includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates.

In the Company's balance sheet, investments in associates are stated at cost less provision for impairment losses. Such provision is determined and made for each associate individually.

The results of associates are accounted for by the Company on the basis of dividends received and receivable.

#### (g) Goodwill/negative goodwill

Goodwill/negative goodwill arising on the acquisition of subsidiaries, jointly controlled entities and associates represents the excess/shortfall of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate 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.

Negative goodwill arising on acquisition is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

#### (h) 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:

- (i) Rental income under operating leases is recognised on a straight-line basis over the term of the lease;
- (ii) Revenue from hotel operations is recognised when the services are provided; and
- (iii) Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rates applicable.

#### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (i) Investment properties (continued)

Investment properties held on leases with unexpired periods greater than twenty years are valued at intervals of not more than three years by an independent valuer; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are based on an open market value basis. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are firstly set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

Investment properties held on leases with unexpired periods of twenty years or less are depreciated over the remaining unexpired periods of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

#### (j) Hotel properties

Hotel properties are interests in land and buildings and their integral fixed plant which are collectively used in the operation of the hotel, and are stated at cost less accumulated depreciation and any impairment loss.

Hotel properties with remaining lease of less than twenty years are depreciated on a straight-line basis over the remaining unexpired period of the lease.

#### (k) Other fixed assets

Other fixed assets (including furniture and fixtures, leasehold improvements, plant and machinery and equipment) are stated at cost less accumulated depreciation and impairment loss. 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. Depreciation of other fixed assets is calculated to write off their costs on the reducing balance method over their expected useful lives to the Group at a principal annual rate of 20%.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (l) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### (m) Inventories

Inventories consisting of food, beverage and hotel supplies, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation.

#### (n) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (n) Income tax (continued)

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 (Revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

#### (o) Translation of foreign currencies

Transactions in foreign currencies are translated at rates of exchange ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with in the income statement.

The balance sheet of the subsidiary expressed in foreign currencies is translated at the rates of exchange ruling at the balance sheet date whilst its income statement is translated at an average rate. Exchange differences arising are dealt with as a movement in exchange fluctuation reserve.

#### (p) Operating leases

Rentals payable and receivable under operating leases are charged or credited to the income statement on a straight-line basis over the leases terms.

#### (q) Employee benefits

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.

The Group operates a defined contribution staff retirement scheme. The Group's contributions under the scheme are charged to the income statement as incurred. The amount of the Group's contributions is based on a specified percentage of the basic salaries of employees and forfeited contributions in respect of unvested benefits of staff leavers are used to reduce the Group's contributions. The assets of the scheme are held separately from those of the Group.

#### (r) Related party transactions

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (s) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash which are subject to an insignificant risk of change in value, having a short maturity of generally within three months of maturity when acquired. For the purpose of the cash flow statement, cash equivalents would also include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

#### (t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

#### (u) Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence and non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segments), or in providing products or services within a particular economic environment (geographical segments), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

#### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

##### (v) Segment reporting (continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, corporate and financial expenses and minority interests.

#### 5. TURNOVER AND OTHER REVENUE

Turnover and other revenue are analysed as follows:

	2004 HK\$	2003 HK\$
<b>Turnover</b>		
Gross rental income from investment properties	969,200	2,131,605
Revenue from hotel operation	<u>15,187,732</u>	<u>17,026,723</u>
	<u>16,156,932</u>	<u>19,158,328</u>
<b>Other revenue</b>		
Bank interest income	183	222
Others	<u>347,027</u>	<u>229,163</u>
	<u>347,210</u>	<u>229,385</u>
Total revenue	<u><u>16,504,142</u></u>	<u><u>19,387,713</u></u>

#### 6. SEGMENTAL INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

##### (a) Business segments

The Group comprises the following main business segments:

Property investment  
– The rental of investment properties

Hotel operation  
– The rendering of hotel accommodation services

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 6. SEGMENTAL INFORMATION (continued)

#### (a) Business segments (continued)

	Property investment		Hotel operation		Unallocated		Consolidated	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$ (restated)
Revenue from external customers	969,200	2,131,605	15,187,732	17,026,723	-	-	16,156,932	19,158,328
Other revenue from external customers	-	-	-	-	347,210	229,385	347,210	229,385
<b>Total</b>	<b>969,200</b>	<b>2,131,605</b>	<b>15,187,732</b>	<b>17,026,723</b>	<b>347,210</b>	<b>229,385</b>	<b>16,504,142</b>	<b>19,387,713</b>
Segment results	901,720	1,748,454	(10,402,735)	(9,998,335)	-	-	(9,501,015)	(8,249,881)
Unallocated corporate expenses							(28,176,828)	(10,076,624)
Loss from operations							(37,677,843)	(18,326,505)
Gain on financial restructuring							525,345,838	-
Restructuring expenses							(6,673,324)	(1,818,577)
Finance costs							(36,032,692)	(55,293,968)
Share of results of associates	(415,568)	131,616	-	-	-	128,325	(415,568)	259,941
Profit/(loss) before taxation							444,546,411	(75,179,109)
Taxation	(29,377)	(26,434)	4,390,574	2,955,118	-	(23,676)	4,361,197	2,905,008
Net profit/(loss) attributable to the shareholders							448,907,608	(72,274,101)
<b>Assets</b>								
Segment assets	12,310,000	14,972,939	75,146,952	112,016,638	-	-	87,456,952	126,989,577
Investments in associates	7,171,732	8,050,614	-	-	-	3,727,367	7,171,732	11,777,981
Unallocated assets							36,975,818	335
<b>Total assets</b>							<b>131,604,502</b>	<b>138,767,893</b>
<b>Liabilities</b>								
Segment liabilities	(1,056,056)	(14,224,573)	(19,978,231)	(15,038,505)	-	-	(21,034,287)	(29,263,078)
Unallocated liabilities							(40,385,862)	(614,550,520)
<b>Total liabilities</b>							<b>(61,420,149)</b>	<b>(643,813,598)</b>
<b>Other segment information</b>								
Capital expenditure	696,628	-	21,987	1,159,010	-	-		
Depreciation	45,319	58,538	9,861,281	11,234,410	1,556	-		
(Surplus)/deficit on revaluation of investment properties	(150,000)	1,610,000	-	-	-	-		
Provision for impairment loss on hotel properties	-	-	24,625,768	12,500,000	-	-		

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For the year ended 31 March 2004

### 6. SEGMENTAL INFORMATION (continued)

#### (b) Geographical segments

The following table presents revenue, profit/(loss) and certain assets and expenditure information for the Group's geographical segments.

	Hong Kong		PRC	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Segment revenue:				
Revenue from external customers	<u>969,200</u>	<u>2,131,605</u>	<u>15,187,732</u>	<u>17,026,723</u>
Segment results	<u>901,720</u>	<u>1,748,454</u>	<u>(10,402,735)</u>	<u>(9,998,335)</u>
Other segment information:				
Segment assets	<u>56,457,550</u>	<u>26,751,255</u>	<u>75,146,952</u>	<u>112,016,638</u>
Capital expenditure	<u>696,628</u>	–	<u>21,987</u>	1,159,010
Depreciation	<u>46,875</u>	<u>58,538</u>	<u>9,861,281</u>	<u>11,234,410</u>

### 7. (PROVISION FOR)/WRITE BACK OF DOUBTFUL DEBTS

	2004 HK\$	2003 HK\$
(Provision for)/write back of doubtful debts due from:		
– Jointly controlled entities	<u>758,096</u>	10,360,818
– Others	<u>(1,978,472)</u>	<u>(1,369,655)</u>
	<u>(1,220,376)</u>	<u>8,991,163</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 8. LOSS FROM OPERATIONS

The loss from operations is stated after crediting and charging the following:

	2004 HK\$	2003 HK\$
Gross rental income from investment properties	969,200	2,131,605
Less: Outgoings	<u>(67,480)</u>	<u>(383,151)</u>
	<u>901,720</u>	<u>1,748,454</u>
Depreciation:		
– hotel properties	8,733,279	9,462,552
– owned fixed assets	1,174,877	2,409,130
– over-provision in prior years	–	<u>(578,734)</u>
	<u>9,908,156</u>	<u>11,292,948</u>
Operating lease rentals for land and buildings	5,000	–
Auditors' remuneration	280,000	250,000
Loss on disposal of other fixed assets	1,733,802	218,470
Net exchange (gain)/ loss	(309,591)	816,576
Retirement benefits costs	<u>29,070</u>	<u>38,440</u>

### 9. GAIN ON FINANCIAL RESTRUCTURING

	2004 HK\$	2003 HK\$
Debt restructuring gain	525,695,673	–
Loss on disposal of subsidiaries	<u>(349,835)</u>	<u>–</u>
	<u>525,345,838</u>	<u>–</u>

### 10. FINANCE COSTS

	2004 HK\$	2003 HK\$
Interest on bank loans and overdrafts		
– wholly repayable within five years	19,091,824	31,324,455
– wholly repayable over five years	1,646,219	–
Interest on other borrowings		
– wholly repayable within five years	<u>15,294,649</u>	<u>23,969,513</u>
	<u>36,032,692</u>	<u>55,293,968</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 11. TAXATION

Taxation in the consolidated income statement comprises:

	2004 HK\$	2003 HK\$
Deferred tax	4,390,574	2,955,118
Share of taxation attributable to associates	(29,377)	(50,110)
	<u>4,361,197</u>	<u>2,905,008</u>

- (a) No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries did not have any assessable profits for the year (2003: HK\$Nil).
- (b) No provision for PRC income tax has been made as there were no assessable profits for the subsidiary operating in the PRC during the year (2003: HK\$Nil).

### 12. NET PROFIT/(LOSS) ATTRIBUTABLE TO THE SHAREHOLDERS

Included in the consolidated net profit attributable to the shareholders of HK\$448,907,608 (2003 (restated): Loss of HK\$72,274,101) is a profit of HK\$459,313,201 (2003: Loss of HK\$104,672,908), including dividends from associates of HK\$412,100 (2003: HK\$2,000,000), which has been dealt with in the financial statements of the Company.

### 13. EARNINGS/(LOSS) PER SHARE

#### (a) Basic

The calculation of basic earnings per share is based on the consolidated net profit attributable to the shareholders for the year of HK\$448,907,608 (2003 (restated): Net loss of HK\$72,274,101) and the weighted average of 2,300,218,284 (2003: 1,074,328,367) shares in issue during the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 13. EARNINGS/(LOSS) PER SHARE (continued)

#### (a) Basic (continued)

Additional basic loss per share excluding non-recurring items have also been presented, based on the loss as follows:

	2004 HK\$	2003 HK\$ (restated)
Net profit/(loss) for the year	<b>448,907,608</b>	(72,274,101)
Adjustments for:		
Gain on financial restructuring	<b>(525,345,838)</b>	–
Restructuring expenses	<b>6,673,324</b>	1,818,577
Loss for the year for the purpose of additional basic and diluted loss per share excluding non-recurring items	<b><u>(69,764,906)</u></b>	<b><u>(70,455,524)</u></b>
	<b>2004</b>	2003
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<b><u>2,300,218,284</u></b>	<b><u>1,074,328,367</u></b>

#### (b) Diluted

Diluted earnings/(loss) per share has not been presented as there were no potential dilutive share options in existence during the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

	2004 HK\$	2003 HK\$
Fees:		
Executive directors	–	–
Independent non-executive directors	–	–
	<hr/>	<hr/>
	–	–
	<hr/>	<hr/>
Other emoluments for executive directors:		
– basic salaries, housing allowances, other allowances and benefits in kind	2,100	211,994
Provident fund contributions	–	7,000
	<hr/>	<hr/>
Total emoluments	<b>2,100</b>	218,994
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2004	2003
From HK\$Nil to HK\$1,000,000	13	11
	<hr/> <hr/>	<hr/> <hr/>

No directors waived any emoluments and no emoluments were paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

#### (b) Five highest paid employees

None (2003: two) of the five highest paid employees are directors whose emoluments are reflected in the directors' emoluments above. Details of the aggregate emoluments of the five (2003: three) highest paid non-director individuals are as follows:

	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Basic salaries, housing allowances, other allowances and benefits in kind	<b>1,141,200</b>	1,007,836
Provident fund contributions	<b>29,070</b>	31,440
	<b><u>1,170,270</u></b>	<u>1,039,276</u>

The emoluments of each of these five (2003: three) individuals fell within the band from HK\$Nil to HK\$1,000,000.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 15. FIXED ASSETS

	Group					
	Investment	Hotel	Furniture	Leasehold	Plant,	Total
	properties	properties	and fixtures	improvements	machinery and equipment	
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
<b>Cost or valuation</b>						
Brought forward						
At cost	–	179,000,000	8,842,587	7,099,186	8,259,447	203,201,220
At professional valuation	11,890,000	–	–	–	–	11,890,000
	<u>11,890,000</u>	<u>179,000,000</u>	<u>8,842,587</u>	<u>7,099,186</u>	<u>8,259,447</u>	<u>215,091,220</u>
Additions	–	–	100,992	523,277	94,346	718,615
Exchange difference	–	–	(7,281)	(5,910)	(6,472)	(19,663)
Disposals	(1,340,000)	–	(2,208,658)	(1,077,416)	(3,632,212)	(8,258,286)
Disposal of subsidiaries	–	–	(17,400)	–	(29,300)	(46,700)
Revaluation surplus	150,000	–	–	–	–	150,000
	<u>10,700,000</u>	<u>179,000,000</u>	<u>6,710,240</u>	<u>6,539,137</u>	<u>4,685,809</u>	<u>207,635,186</u>
Carried forward						
At cost	–	179,000,000	6,710,240	6,539,137	4,685,809	196,935,186
At professional valuation	10,700,000	–	–	–	–	10,700,000
	<u>10,700,000</u>	<u>179,000,000</u>	<u>6,710,240</u>	<u>6,539,137</u>	<u>4,685,809</u>	<u>207,635,186</u>
<b>Accumulated depreciation/impairment</b>						
Brought forward	–	71,640,953	8,121,272	5,459,301	7,529,722	92,751,248
Exchange difference	–	–	(6,710)	–	(6,001)	(12,711)
Charge for the year	–	8,733,279	509,143	587,679	78,055	9,908,156
Disposals	–	–	(1,978,735)	(22,398)	(3,183,351)	(5,184,484)
Disposal of subsidiaries	–	–	(13,447)	–	(23,142)	(36,589)
Impairment	–	24,625,768	–	–	–	24,625,768
	<u>–</u>	<u>105,000,000</u>	<u>6,631,523</u>	<u>6,024,582</u>	<u>4,395,283</u>	<u>122,051,388</u>
Carried forward						
<b>Net book value</b>						
<b>At 31 March 2004</b>	<u>10,700,000</u>	<u>74,000,000</u>	<u>78,717</u>	<u>514,555</u>	<u>290,526</u>	<u>85,583,798</u>
At 31 March 2003	<u>11,890,000</u>	<u>107,359,047</u>	<u>721,315</u>	<u>1,639,885</u>	<u>729,725</u>	<u>122,339,972</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 15. FIXED ASSETS (continued)

	Company				Total HK\$
	Investment properties	Furniture and fixtures	Leasehold improvements	Computer and office equipment	
	HK\$	HK\$	HK\$	HK\$	
<b>Cost or valuation</b>					
Brought forward					
At cost	–	134,600	45,500	505,640	685,740
At professional valuation	11,890,000	–	–	–	11,890,000
	11,890,000	134,600	45,500	505,640	12,575,740
Additions	–	79,005	523,277	94,346	696,628
Disposals	(1,340,000)	(125,420)	(45,500)	(491,590)	(2,002,510)
Revaluation surplus	150,000	–	–	–	150,000
	10,700,000	88,185	523,277	108,396	11,419,858
Carried forward					
At cost	–	88,185	523,277	108,396	719,858
At professional valuation	10,700,000	–	–	–	10,700,000
	10,700,000	88,185	523,277	108,396	11,419,858
<b>Accumulated depreciation</b>					
Brought forward	–	100,158	18,321	344,774	463,253
Charge for the year	–	6,547	12,799	25,973	45,319
Disposals	–	(97,237)	(22,398)	(359,461)	(479,096)
Carried forward	–	9,468	8,722	11,286	29,476
<b>Net book value</b>					
<b>At 31 March 2004</b>	<u>10,700,000</u>	<u>78,717</u>	<u>514,555</u>	<u>97,110</u>	<u>11,390,382</u>
At 31 March 2003	<u>11,890,000</u>	<u>34,442</u>	<u>27,179</u>	<u>160,866</u>	<u>12,112,487</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 15. FIXED ASSETS (continued)

- (a) The investment properties of the Group are held under medium term leases in Hong Kong.

The investment properties of the Group were revalued on an open market value basis as at 31 March 2004 by Norton Appraisals (2003: Knight Frank), an independent firm of professional valuers. The revaluation surplus of HK\$150,000 (2003: deficit of HK\$1,610,000) has been charged to the income statement.

- (b) The hotel properties are situated in the PRC and are held under short term leases. The building ownership certificate for the hotel properties has not been obtained. According to a settlement agreement signed on September 30, 2003 by the joint venture partner, it will continue to grant the Group the right to use the land until the expiry of the term of lease on 11 December 2015 based on the continual fulfillment of repayment of outstanding accounts payable to the joint venture partner. The repayment was on schedule upto 31 March 2004.
- (c) The carrying value of the hotel properties stated in the financial statements was reviewed and the recoverable amount was considered to be the net selling price. As such, the carrying value of the hotel property stated was based on an open market value valuation made by an independent firm of professional valuers as at 31 March 2004. A shortfall of HK\$24,625,768 has been charged to the income statement.

### 16. SUBSIDIARIES

	2004 HK\$	2003 HK\$
Unlisted shares, at cost	7,694,824	28,069,474
Less: Provision for impairment losses	<u>(7,694,824)</u>	<u>(28,069,474)</u>
	—	—
Loans to subsidiaries	119,691,065	258,822,508
Less: Provision for doubtful amounts	<u>(67,656,586)</u>	<u>(258,822,508)</u>
	<u>52,034,479</u>	—
Advances from a subsidiary	<u>(35,775,824)</u>	—
	<u><u>16,258,655</u></u>	<u>—</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 16. SUBSIDIARIES (continued)

Particulars of subsidiaries at 31 March 2004 are as follows:

Name of subsidiaries	Place of incorporation and principal place of operations	Effective percentage holding		Issued and fully paid share/registered capital	Principal activities
		2004 %	2003 %		
<b>Direct subsidiaries:</b>					
Clarson Hotel Management Limited	Hong Kong	-	100	Ordinary HK\$300,000	Inactive
Eastborough Enterprises Limited	Hong Kong	-	100	Ordinary HK\$600,000	Investment holding
Eastern Associated Investment Company, Limited	Hong Kong	100	100	Ordinary HK\$1,000,000	Investment holding
Everlink Development Limited	Hong Kong	-	100	Ordinary HK\$10,000	Inactive
Fujian Group Nominees Limited	Hong Kong	-	100	Ordinary HK\$2	Nominee
Honest Bright International Limited	Hong Kong	-	100	Ordinary HK\$2	Inactive
Kai Loong Land Investment Company, Limited	Hong Kong	-	100	Ordinary HK\$415,000	Inactive
Kiu Sun Investment Company, Limited	Hong Kong	100	100	Ordinary HK\$1,000,000	Investment holding
Ming Chuen Construction Company, Limited	Hong Kong	100	100	Ordinary HK\$100,000	Investment holding
Panew International Limited (note (c))	Hong Kong	-	100	Ordinary HK\$2	Inactive
Real Wide Limited (note (d))	Hong Kong	-	55	Ordinary HK\$10,000	Inactive
Richlite Investment Limited	Hong Kong	-	100	Ordinary HK\$2	Inactive
Silver Cone Worldwide Limited	British Virgin Islands	-	100	Ordinary US\$1	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 16. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation and principal place of operations	Effective percentage holding		Issued and fully paid share/registered capital	Principal activities
		2004 %	2003 %		
<b>Direct subsidiaries: (continued)</b>					
Sino Bless International Limited	Hong Kong	-	100	Ordinary HK\$2	Inactive
Smart Stride Investment Limited	Hong Kong	-	100	Ordinary HK\$2	Inactive
Smart Truth International Limited	Hong Kong	100	100	Ordinary HK\$10,000	Inactive
Triplenic Realty Limited	Hong Kong	-	75	Ordinary HK\$1,000,000	Investment holding
Wealth Cosmos Limited	Hong Kong	-	100	Ordinary HK\$2	Inactive
Yan Hei Limited ("Yan Hei") (note (e))	Hong Kong	100	100	Ordinary HK\$10,000 and Non-voting deferred HK\$10,000	Investment holding
<b>Indirect subsidiaries:</b>					
Billion Lion Limited	Hong Kong	-	75	Ordinary HK\$2	Inactive
Gold Silver Limited	Hong Kong	-	100	Ordinary HK\$10,000	Inactive
Link Smart Investment Limited	Hong Kong	-	100	Ordinary HK\$2	Inactive
Sheen Sharp Limited	Hong Kong	-	100	Ordinary HK\$2	Inactive
Texway Industries Limited	Hong Kong	-	100	Ordinary HK\$2	Inactive
Xiamen South East Asia Hotel Company, Limited ("Xiamen Plaza") (notes (a)&(b))	PRC	100	100	Registered capital US\$5,000,000	Hotel operation

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 16. SUBSIDIARIES (continued)

Notes:

- (a) Xiamen Plaza has a financial year-end of 31 December. Its financial year cannot be co-terminous with that of the Company for the reason of its need to comply with regulations of the PRC. The financial statements of Xiamen Plaza for the year ended 31 December 2003 have been audited by Pan-China (Xiamen) Certified Public Accountants. The annual results, year-end assets and liabilities of Xiamen Plaza for the year ended 31 March 2004, have been consolidated based on the audited financial statements for the year ended 31 December 2003 and the unaudited management accounts for the three months ended 31 March 2004.
- (b) 40% of the Group's interests in Xiamen Plaza are pledged in favour of a bank for a loan granted to the subsidiary as referred to in note 31 to the financial statements.
- (c) The Group's interests in the issued share capital of Panew International Limited was pledged in favour of Sino Earn to secure loan facilities granted to the Company. The charged shares transferred out of the Group upon the completion of the Financial Restructuring, details of which are set out in note 2 to the financial statements.
- (d) The Group's interests in the issued share capital of Real Wide Limited were pledged, together with the Group's investment properties with a carrying value of HK\$1,340,000, in favour of a third party for a loan granted to the Company as referred to in note 21(b)(ii) to the financial statements. Pursuant to a deed of settlement and a deed of release both signed on 28 August 2003, this third party agreed to accept the assignment of the pledged investment properties with a carrying value of HK\$1,340,000 as a settlement of the loan and to release and discharge the share charge.
- (e) The Group was granted a Court Order on 23 February 2001 for rescission (the "Rescission Order") of the Agreement in relation to the Group's acquisition of a 60% equity interest in Skycheer Development Limited ("Skycheer"), which owns 100% equity interest in Xiamen Hong Du Park Hotel ("Hong Du") which was partially settled by the transfer of the Group's 40% equity interest in Yan Hei Limited ("Yan Hei"), which owns 100% equity interest in Xiamen Plaza. As a result of the Rescission Order, Skycheer and Hong Du would not be 60% owned by the Group and the said 40% equity interest in Yan Hei and its subsidiary, Xiamen Plaza, would be included as wholly owned subsidiaries of the Group.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 16. SUBSIDIARIES (continued)

Notes: (continued)

The Group's 60% interests in the issued share capital of Yan Hei were pledged, among other securities, in favour of Jian Xing to secure loan facilities granted to the Company. The deed of release regarding the charged share was signed and executed upon the completion of the Financial Restructuring on 11 December 2003.

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

- (f) Upon the completion of the Financial Restructuring, 19 non-core subsidiaries were either transferred out or struck-off on 11 December 2003. Their removal from the Group had no material financial impact to the Group.

### 17. JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Unlisted shares, at cost	-	-	-	5,005,000
Less: Provision for impairment losses	-	-	-	(5,005,000)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
Share of net assets other than goodwill	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
Loan to a jointly controlled entity (note (a))	-	96,868,810	-	96,868,810
Less: Provision for doubtful amounts	-	(96,868,810)	-	(96,868,810)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 17. JOINTLY CONTROLLED ENTITIES (continued)

Movements of the Group's and the Company's obligation to a jointly controlled entity during the year are as follows:

	Group HK\$	Company HK\$
Balance at 1 April 2003	15,000,000	15,000,000
Written back during the year	<u>(15,000,000)</u>	<u>(15,000,000)</u>
Balance at 31 March 2004 (note (a))	<u>–</u>	<u>–</u>

Note:

- (a) The obligation to a jointly controlled entity was provide based on the net exposure of the Group and of the Company on the outstanding bank loan and loan from a joint venture partner on balance drawn down by the jointly controlled entity. Such obligation to a jointly controlled entity is limited to the extent of HK\$15,000,000 pursuant to the banking facility granted from the bank. Pursuant to the Financial Restructuring, the whole indebtedness and all liabilities due by the Company to its creditors were released and fully discharged, details of which are set out in note 2 to the financial statements.

Particulars of jointly controlled entities at 31 March 2004 are as follows:

Name of jointly controlled entity	Place of incorporation and principal place of operations	Effective percentage holding		Issued and fully paid share/registered capital	Principal activities
		2004 %	2003 %		
Asian Eagle Limited (note (i))	Hong Kong	–	50	Ordinary HK\$10,000	Property development
MT Finance Limited (note (iii))	Hong Kong	–	50	Ordinary HK\$10,000,000	Money lending
Westly Limited (note (ii))	Hong Kong	–	50	Ordinary HK\$10,000	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 17. JOINTLY CONTROLLED ENTITIES (continued)

Notes:

- (i) The Company indirectly held the interest in this jointly controlled entity.
- (ii) The Company's interest in the issued share capital of Westly Limited was the subject of a first share charge in favour of the joint venture partner, to secure loan granted to the Company and a mortgage in favour of the joint venture partner, to secure loans granted to this jointly controlled entity, and was under second share charge, among other securities, in favour of Sino Earn to secure loans granted to the Company as referred to in note 21(b)(i) to the financial statements. The Company fully repaid the debts owing to the joint venture partner as at 31 March 2003 and accordingly, the first share charge was released. Pursuant to the Financial Restructuring, details of which are set out in note 2 to the financial statements, Sino Earn has executed the share charge as partial settlement of the loan granted.
- (iii) Pursuant to the Financial Restructuring, details of which are set out in note 2 to the financial statements, the other jointly controlled entity was transferred out of the Group during the year. Its removal from the Group had no material financial impact to the Group.

### 18. ASSOCIATES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Unlisted shares, at cost	–	–	<b>6,475,051</b>	6,475,051
Less: Provision for impairment losses	–	–	<b>(4,475,050)</b>	(1,899,999)
	–	–	<b>2,000,001</b>	4,575,052
Share of net assets other than goodwill	<b>6,521,732</b>	11,127,981	–	–
	<b>6,521,732</b>	11,127,981	<b>2,000,001</b>	4,575,052
Amounts due from associates	<b>650,000</b>	658,500	<b>650,000</b>	658,500
Less: Provision for doubtful amounts	–	(8,500)	–	(8,500)
	<b>7,171,732</b>	11,777,981	<b>2,650,001</b>	5,225,052

The amounts due from associates are unsecured, interest-free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 18. ASSOCIATES (continued)

Particulars of associates at 31 March 2004 are as follows:

Name of associate	Place of incorporation and principal place of operations	Effective percentage holding		Issued and fully paid share/registered capital	Principal activities
		2004 %	2003 %		
Austin Land Investment Limited	Hong Kong	46.82	46.82	Ordinary HK\$6,300,000	Provision of building management services
Ealing Court Limited (note (a))	Hong Kong	33.33	33.33	Ordinary HK\$6,000,000	Property investment
Ming Sun Contractors Limited	Hong Kong	49.50	49.50	Ordinary HK\$1,000,000	Inactive
Sherrin Property Investment Limited (note (a))	Hong Kong	33.33	33.33	Ordinary HK\$3	Property investment

Note:

- (a) The Company's interests in the issued share capital of these associates were pledged, among other securities, in favour of Sino Earn for loan facilities granted to the Company as referred to in note 21(b)(i) to the financial statements. The deed of release regarding the charged share was signed and executed pursuant to the Financial Restructuring, details of which are set out in note 2 to the financial statements.

### 19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Accounts receivable (net of provisions for bad and doubtful debts), with aging analysis				
Current to 6 months	156,968	904,223	149,405	7,638
Over 6 months	236,347	74,187	316	5,984
	<b>393,315</b>	978,410	<b>149,721</b>	13,622
Utility deposits and prepayments	920,438	667,221	769,896	361,933
	<b>1,313,753</b>	1,645,631	<b>919,617</b>	375,555

The Group has defined credit terms which are agreed with each of its trade customers.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 20. INVENTORIES

	Group	
	2004	2003
	HK\$	HK\$
At cost	605,232	973,154
Less: Provision for obsolete inventories	(126,806)	(473,389)
	<u>478,426</u>	<u>499,765</u>

Inventories of HK\$478,426 (2003: HK\$499,765) are carried at net realisable value.

## 21. BANK AND OTHER BORROWINGS

	Group		Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Bank loans and overdrafts (note (a))	30,456,091	281,160,985	–	72,965,580
Other borrowings (note (b))	–	203,529,462	–	203,529,462
	<u>30,456,091</u>	<u>484,690,447</u>	<u>–</u>	<u>276,495,042</u>
Portion classified as current liabilities	(5,979,283)	(484,690,447)	–	(276,495,042)
	<u>24,476,808</u>	<u>–</u>	<u>–</u>	<u>–</u>

Notes:

(a) Bank loans and overdrafts are analysed as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Secured				
– bank loans	26,359,640	32,388,765	–	–
Unsecured				
– bank loans	4,096,451	186,851,906	–	55,310,216
– overdrafts	–	61,920,314	–	17,655,364
	<u>30,456,091</u>	<u>281,160,985</u>	<u>–</u>	<u>72,965,580</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 21. BANK AND OTHER BORROWINGS (continued)

Notes: (continued)

(a) Bank loans and overdrafts are analysed as follows: (continued)

Bank loans are repayable as follows:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Within one year	5,979,283	281,160,985	-	72,965,580
In the second year	2,824,247	-	-	-
In the third to fifth years, inclusive	13,179,820	-	-	-
Over 5 years	8,472,741	-	-	-
	<b>30,456,091</b>	<b>281,160,985</b>	<b>-</b>	<b>72,965,580</b>

Pursuant to the Financial Restructuring, the whole indebtedness and all liabilities, except for the above bank loans, due by the Company to its creditors was released and fully discharged, details of which are set out in note 2 to the financial statements.

(b) Other borrowings are analysed as follows:

	Note	Group		Company	
		2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Secured					
- loans from a shareholder	(i)	-	145,632,024	-	145,632,024
- loan from a related company	(i)	-	42,000,000	-	42,000,000
- loan from a third party	(ii)	-	3,526,551	-	3,526,551
Unsecured					
- amount due to a related company	(iii)	-	73,632	-	73,632
- loans from associates	(iii)	-	5,208,630	-	5,208,630
- loans from third parties	(iii)	-	7,088,625	-	7,088,625
		<b>-</b>	<b>203,529,462</b>	<b>-</b>	<b>203,529,462</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 21. BANK AND OTHER BORROWINGS (continued)

Notes: (continued)

(b) Other borrowings are analysed as follows: (continued)

(i) Secured loans from a shareholder and from a related company

Pursuant to the Financial Restructuring, Sino Earn and Jian Xing partly waived the loans, executed certain charged shares and were issued ordinary shares for the settlement of the remaining secured loans, details of which are set out in note 2 to the financial statements.

(ii) Secured loan from a third party

The loan from a third party secured by certain investment properties of the Company with a carrying value of HK\$1,340,000 was released pursuant to a deed of settlement and a deed of release both signed on 28 August 2003. This third party agreed to accept the assignment of the pledged investment properties as a partial settlement of the loan. The remaining balance was regarded as unsecured and waived subject to the terms of the Scheme, details of which are set out in note 2 to the financial statements.

(iii) Pursuant to the Financial Restructuring, the whole indebtedness and all liabilities due by the Company to its creditors were released and fully discharged, details of which are set out in note 2 to the financial statements.

### 22. ACCOUNTS PAYABLE

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Accounts payable with aging analysis				
Current to 6 months	<b>4,223,170</b>	3,102,787	<b>789,353</b>	1,575,732
Over 6 months	<b>11,810,451</b>	21,148,208	<b>658</b>	7,967,527
	<b>16,033,621</b>	24,250,995	<b>790,011</b>	9,543,259
Accrued charges and tenants' deposits	<b>271,387</b>	5,012,083	<b>266,045</b>	1,495,881
	<b>16,305,008</b>	29,263,078	<b>1,056,056</b>	11,039,140
Portion classified as non-current liabilities	<b>(4,446,000)</b>	–	–	–
	<b>11,859,008</b>	29,263,078	<b>1,056,056</b>	11,039,140

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 22. ACCOUNTS PAYABLE (continued)

Accounts payable are repayable as follows:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Within one year	11,587,621	24,250,995	790,011	9,543,259
In the second year	1,501,500	–	–	–
In the third to fifth years, inclusive	2,944,500	–	–	–
	<u>16,033,621</u>	<u>24,250,995</u>	<u>790,011</u>	<u>9,543,259</u>

### 23. UNCLAIMED DIVIDENDS

In accordance with article 156 of the Company's Articles of Association, all dividends unclaimed for six years after having been declared may be forfeited by the directors and shall revert to the Company. Unclaimed dividends of HK\$81,573 had been reverted to the Company during the year.

### 24. MINORITY INTERESTS

(a) Minority interests comprised accumulated net losses borne by minority shareholders of the non-wholly-owned subsidiaries of the Group, less provision made for doubtful amounts receivable from minority shareholders in prior year. These non-wholly-owned subsidiaries had been disposed of during the year and accordingly, there was no minority interests as at 31 March 2004.

(b) Loans from minority shareholders

	Group	
	2004 HK\$	2003 HK\$
Loans from a minority shareholder to Real Wide Limited	–	3,739,396
Loans from a minority shareholder to Triplenic Realty Limited	–	498,320
	<u>–</u>	<u>4,237,716</u>

Pursuant to the Financial Restructuring, the above loans from minority shareholders were released and fully discharged, details of which are set out in note 2 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

## 25. SHARE CAPITAL

	Note	2004		2003	
		Number of shares	HK\$	Number of shares	HK\$
<i>Authorised:</i>					
At 1 April 2003		4,000,000,000	500,000,000	4,000,000,000	500,000,000
Capital reduction	a(i)	-	(120,861,941)	-	-
Share subdivision	a(ii)	26,331,044,697	-	-	-
Ordinary shares of HK\$0.0125 (2003: HK\$0.125) each		<u>30,331,044,697</u>	<u>379,138,059</u>	<u>4,000,000,000</u>	<u>500,000,000</u>
<i>Issued and fully paid:</i>					
At 1 April 2003		1,074,328,367	134,291,046	1,074,328,367	134,291,046
Capital reduction	a(i)	-	(120,861,941)	-	-
Issue of shares	a(iii)	4,124,773,149	51,559,664	-	-
Ordinary shares of HK\$0.0125 (2003: HK\$0.125) each		<u>5,199,101,516</u>	<u>64,988,769</u>	<u>1,074,328,367</u>	<u>134,291,046</u>

*Notes:*

## (a) Movements during the year

- (i) By an ordinary resolution passed on 3 November 2003 and pursuant to an Order of the Court made on 10 December 2003, the nominal value of each issued share of the Company was reduced from HK\$0.125 to HK\$0.0125 and the Company's issued share capital of HK\$134,291,046 was reduced by HK\$120,861,941 to HK\$13,429,105. The amount of HK\$120,861,941 arising from the capital reduction was applied to reduce the same amount of the accumulated losses of the Company.
- (ii) Pursuant to the ordinary resolution passed on 3 November 2003, the authorised share capital of the Company of HK\$379,138,059 was divided into 30,331,044,697 shares of HK\$0.0125 each.
- (iii) Pursuant to the restructuring agreement dated 25 April 2003 and by an ordinary resolution passed on 3 November 2003, 2,792,413,792 shares at HK\$0.0145 each were subscribed by HC Technology for a consideration of HK\$40,490,000 on 11 December 2003 upon the completion of the Company's restructuring.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 25. SHARE CAPITAL (continued)

Notes: (continued)

#### (a) Movements during the year (continued)

The cash proceeds from the subscription, totaling about HK\$34 million, was and would be applied by the Company in the coming 12 months immediately following the completion of the restructuring as follows:

- (a) US\$200,000 and RMB 2,000,000 in settlement of part of the debts of Xiamen Plaza owing to the The Xiamen Railway Department Company Limited of the Shanghai Railway Department) and The Industrial and Commercial Bank of China ( Xiamen Branch);
- (b) Approximately HK\$11.3 million for cash payments due under the Debt Restructuring; and
- (c) The balance of approximately HK\$19.27 million will be retained by the Company for the general working capital requirements of the Group.

An aggregate of 380,965,823 and 151,393,534 shares were issued to Sino Earn and Jian Xing at HK\$0.125 each pursuant to the restructuring agreement to set-off the indebtedness owing by the Company.

- (iv) The Company entered into a placing agreement and subscription agreement on 11 December 2003. Pursuant to the placing agreement, HC Technology appointed a placing agent to place 800,000,000 placing shares on a fully underwritten basis to not less than six independent parties at the placing price of HK\$0.025 per placing share. The placing was completed on 16 December 2003. Pursuant to the subscription agreement, the Company further issued 800,000,000 shares to HC Technology at HK\$0.025 each.

The Placing and the Subscription were made for the purpose of restoring the public float of the shares to not less than 25% in order to meet the requirement under Rule 8.08 of the Listing Rules.

The net proceed for the Subscription is approximately HK\$19.4 million and would be used for general working capital purposes.

- (v) Share premium of HK\$75,475,256 was resulted from the shares issued in note 25(a)(iii).

#### (b) Changes subsequent to the year end

- (i) On 27 April 2004, the Company issued a total of 898,484 ordinary shares of HK\$0.0125 each at a premium of HK\$0.0175 each. The reason of the issue was to better facilitate the proposed share consolidation as mentioned below as well as to round up the various figures relating to the capital structure of the Company.
- (ii) By an ordinary resolution passed on 10 May 2004, the authorised share capital of the Company was increased from HK\$379,138,059 to HK\$380,000,000 by the creation of an additional 68,955,303 shares of HK\$0.0125 each.
- (iii) By an ordinary resolution passed on 10 May 2004, the Company has consolidated every 10 shares of HK\$0.0125 each into one consolidated share of HK\$0.125 each pursuant to the share consolidation. All the consolidated shares resulting from such consolidation shall rank pari passu in all respect with each other and have the same rights and privileges.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 26. SHARE OPTIONS

On 22 January 1997, the Company approved a share option scheme (“Existing Scheme”) under which the directors may, at their discretion, invite any employee or executive directors of the Company and the Group to take up options to subscribe for shares in the capital of the Company at any time during the ten years from the date of offer. The subscription price of the Company’s shares shall be referred to the average closing price of the Company’s shares as quoted on the Stock Exchange for five dealings days immediately preceding the offer date. The maximum number of shares on which options may be granted may not exceed 10% of the ordinary share capital of the Company in issue from time to time. No options of the Company were being granted or outstanding since the year ended 2002.

On 23 August 2001, the Stock Exchange introduced changes to the provisions of the Chapter 17 of the Listing Rules in relation to share option schemes which came into effect on 1 September 2001. As a result of the amendments to the Listing Rules, the Board has not been able to grant options under the Existing Scheme. In compliance with the amendments to the Listing Rules, by an ordinary resolution passed on 10 May 2004, the Company terminated the existing share option scheme and adopted the new share option scheme (“New Scheme”).

The principal terms of the New Scheme are set out as follows:

#### **Purpose of the Scheme**

The purpose of the Scheme is to provide participants of the same with the opportunity to acquire proprietary interests in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

#### **Eligible Participants of the Scheme**

(i) any executive, non-executive or independent non-executive director of any member of the Group or an entity in which the Group holds an interest (“Affiliate”); (ii) any employee or officer (whether full time or part time) (“Employee”) of the Group or an Affiliate; (iii) any shareholder of any member of the Group or an Affiliate who has, in the opinion of the Board, contributed or may contribute to the development and growth of the Group; (iv) any customer, supplier, agent, partner, consultant or adviser of or contractor to any member of the Group or an Affiliate; or (v) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, customer, supplier, agent, partner, consultant or adviser of or contractor to any member of the Group or an Affiliate; or (vi) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor any member of the Group or an Affiliate.

#### **Total Number of Securities Issuable**

The maximum number of shares which may be granted under the New Scheme and any other schemes involving the issue or grant of options or similar rights over shares or other securities by the Company shall not, in aggregate, exceed 10% of shares in issue as at the date of approval of the New Scheme. As at the date of this annual report, no share options have been granted under the New Scheme.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 26. SHARE OPTIONS (continued)

#### Maximum Entitlement of Each Participant

Unless approved by the shareholders, no option may be granted to any eligible participants which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the New Scheme (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company as at the date of such new grant.

#### Period to Take Up Share Options and Minimum Period to Hold Before Exercise

There is no minimum period within which the shares option must be taken up or for which a share option must be held before it can be exercised.

#### Amount Payable to Take Up Share Options and Time to Accept Offer

An offer for the granting of share options under the New Scheme shall be accepted within 28 days from the offer date and by way of payment of a consideration of HK\$1.

#### Maximum Period for Exercising on Option

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the board of Directors to each guarantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not more than 10 years from the date of grant of the option.

#### Exercise Price

The exercise price shall be a price determined by the board of directors of the Company and shall not be less than the highest of:

- (i) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day;
- (ii) an amount equivalent to the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of a share.

#### Life of the Scheme

The Scheme shall be valid and effective for a period of 2 years commencing on the date of adoption of the Scheme.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 27. RESERVES

#### (a) Group

Details of changes in reserves of the Group are set out in the consolidated statements of changes in equity on page 16.

Notes:

- (i) The exchange fluctuation reserve has been set up and dealt with in accordance with the accounting policies adopted for translation of foreign currencies (note 4(o)).
- (ii) The accumulated losses of HK\$573,118,225 (2003 (restated): Accumulated losses of HK\$1,142,969,347) included no profit (2003: Losses of HK\$149,009,834) attributable to jointly controlled entities and losses of HK\$444,945 (2003: Profits of HK\$2,915,597) attributable to associates.

#### (b) Company

	Share premium <i>Note (i)</i> HK\$	Capital reserve <i>Note (ii)</i> HK\$	Accumulated losses HK\$	Total HK\$
At 1 April 2002	498,358,945	10,000,000	(1,056,680,080)	(548,321,135)
Loss for the year	–	–	(104,672,908)	(104,672,908)
At 31 March 2003 and at 1 April 2003	498,358,945	10,000,000	(1,161,352,988)	(652,994,043)
Capital reduction	–	–	120,861,941	120,861,941
Release of capital reserve	–	(10,000,000)	10,000,000	–
Issue of shares	75,485,708	–	(10,452)	75,475,256
Capital expenditure on issue of ordinary shares	(660,106)	–	–	(660,106)
Unclaimed dividends written back	–	–	81,573	81,573
Profit for the year	–	–	459,313,201	459,313,201
	<u>573,184,547</u>	<u>–</u>	<u>(571,106,725)</u>	<u>2,077,822</u>

Notes:

- (i) The application of share premium is governed by Section 48B of the Hong Kong Companies Ordinance.
- (ii) The capital reserve, which was previously set aside for general purpose, had been transferred to accumulated losses during the year.
- (iii) At 31 March 2004, no distributable reserves of the Company was available for distribution as dividends (2003: HK\$Nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 28. DEFERRED TAXATION

	Accelerated tax depreciation HK\$
At 1 April 2002	–
As previously reported	
Prior year adjustment on adoption of SSAP 12 (Revised)	<u>12,074,970</u>
As restated	12,074,970
Deferred tax credited to income statement ( <i>note 11</i> ) (as restated)	<u>(2,955,118)</u>
At 31 March 2003	<u>9,119,852</u>
At 1 April 2003	–
As previously reported	
Prior year adjustment on adoption of SSAP 12 (Revised)	<u>9,119,852</u>
At restated	9,119,852
Deferred tax credited to income statement ( <i>note 11</i> )	<u>(4,390,574)</u>
At 31 March 2004	<u>4,729,278</u>

At 31 March 2004, the Group has unrecognised tax losses of HK\$131,540,951 (2003: HK\$131,540,951) to carry forward against future taxable income. These tax losses have not been recognised for due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$8,074,992 (2003: HK\$8,074,992) that will expire in the years from 2004 to 2008. The remaining tax losses may be carried forward indefinitely.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 29. MAJOR NON-CASH FLOW TRANSACTIONS

#### (a) Disposal of subsidiaries

	HK\$
Net assets disposal of	
Fixed assets	10,111
Other receivables	305,288
Bank balances	34,436
	<u>349,835</u>
Loss on disposal of subsidiaries	<u>(349,835)</u>
	<u>          -</u>
Cash and cash equivalents disposed	<u><u>(34,436)</u></u>

#### (b) Major non-cash flow transactions

- (i) Upon the completion of Financing Restructuring, an aggregate of HK\$525,345,838 of the bank and other borrowings, interest payable on borrowings and accounts and other payables were written back as debt restructuring gain.
- (ii) Pursuant to the Restructuring Agreement, the Company allotted a total of 532,359,357 ordinary shares at HK\$0.125 each to Sino Earn and Jian Xing as full settlement of part of their loans of HK\$66,544,920 (Note 2).
- (iii) Pursuant to the Restructuring Agreement, the Company allotted 2,792,413,792 ordinary shares at HK\$0.0145 each to HC Technology of which HK\$34,000,000 was satisfied by cash and HK\$6,490,000 was by settlement of the same amount of debts (Note 2). Pursuant to a subscription agreement, the Company allotted 800,000,000 ordinary shares at HK\$0.025 each to HC Technology which was settled by cash of HK\$20,000,000 (Note 25 (a) (iv)).
- (iv) Pursuant to the agreed arrangements, certain secured investment properties of the Company with a carrying value of HK\$1,340,000 were disposed of to a third party as full settlement of the loan therefrom (Note 20(b)(ii)).
- (v) An associate declared an interim dividend of HK\$6,000,000 in the previous year and the Group's entitlement thereto of HK\$2,000,000 as at 31 March 2003 was utilised to partially offset against the loan from the associate.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 30. CONTINGENT LIABILITIES

As at 31 March 2004, the Group and the Company did not have any contingent liabilities not provided for in the financial statements. As at 31 March 2003, the Company had issued guarantees to its bankers for bank loans and overdrafts granted to its subsidiaries amounted to HK\$340,042,183.

### 31. PLEDGE OF ASSETS

Bank loans of HK\$26,359,640 (2003: HK\$28,266,154) are secured by the Group's 40% interests in Xiamen Plaza.

### 32. OPERATING LEASE COMMITMENTS

As at 31 March 2004, the Group and Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group and Company	
	2004	2003
	HK\$	HK\$
Operating leases which expire:		
Within one year	291,980	—
After one year but within five years	517,097	—
	<u>809,077</u>	<u>—</u>

### 33. OPERATING LEASE ARRANGEMENTS

The Group and the Company had entered into non-cancellable operating lease arrangements with the tenants and the terms of the leases range from one to two years. As at 31 March 2004, the Group and the Company had future aggregate minimum lease receivables under non-cancellable operating leases in respect of land and buildings as follows:

	Group and Company	
	2004	2003
	HK\$	HK\$
Within one year	848,516	928,700
After one year but within five years	78,000	774,516
	<u>926,516</u>	<u>1,703,216</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

### 34. RELATED PARTY TRANSACTIONS

The total fee charged by Sino Earn for the year ended 31 March 2004 was HK\$6,639 (2003: HK\$307,350).

The above transaction was carried out on normal commercial terms and conditions no more favourable than those available to other parties.

### 35. POST BALANCE SHEET EVENTS

On 16 April 2004, a circular containing, among other things, information relating to the following proposals (the "Circular") put forward by the board was dispatched to the shareholders at the extraordinary general meeting ("EGM"):

- (a) Pursuant to the subscription agreement, the issue and allotment of 898,484 ordinary shares to an independent third party, Goldride Holdings Limited;
- (b) The increase of the authorised share capital of the Company from HK\$379,138,059 to HK\$380,000,000;
- (c) The share consolidation, pursuant to which every 10 shares of HK\$0.0125 each are consolidated into one consolidation share of HK\$0.125 each and corresponding amendment to the relevant provision in the Articles of Association of the Company;
- (d) The change of board lot size from 200,000 shares to 20,000 consolidated shares;
- (e) The termination of the existing share option scheme and adoption of the new share option scheme; and
- (f) The renewal of the general mandate.

The EGM was held on 10 May 2004 and all resolutions set out in the Notice of EGM contained in the Circular were duly passed.

### 36. COMPARATIVES

As explained in notes 3 and 4(n) to the financial statements, due to the adoption of SSAP 12 (Revised) the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements.

### 37. AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 July 2004.