

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

1. REORGANISATION

On 20 June 2003, the Group completed an extensive reorganisation (the "Reorganisation"), which included, amongst other things, the cancellation and distribution of the share premium and a portion of the retained profits of the Company amounting to approximately HK\$1,187,024,000 in specie in the form of shares of Besteam Limited ("Besteam"), a then wholly owned subsidiary of the Company. Besteam is an investment holding company, which, upon the completion of the Reorganisation, holds certain subsidiaries and associated companies of the Group (collectively "Besteam Group"). Details of the Reorganisation have been set out in the circular of the Company dated 10 April 2003 and the composite offer document dated 30 June 2003 issued jointly by the Company and Mexan Group Limited.

The Reorganisation incurred expenses of approximately HK\$38,609,000 including the cancellation of share options of the Company amounting to HK\$33,344,000.

The result of the Besteam Group have been included in the consolidated profit and loss account up to 20 June 2003, which are set out below:

	Unaudited 1 April 2003 to 20 June 2003 HK\$'000
Turnover	19,436
Loss before taxation	(6,557)
Taxation	516
Loss after taxation	(6,041)

The net assets of the Besteam Group were as follows:

	At 20 June 2003 HK\$'000
Total assets	1,552,183
Total liabilities	(365,159)
Net assets	1,187,024

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts are prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and other investments are stated at fair value.

In the current year, the Group adopted the Statement of Standard Accounting Practice 12 (revised) "Income Taxes" issued by the HKICPA, which is effective for accounting periods commencing on or after 1 January 2003. The change to the Group's accounting policy and effect of adopting this revised standard are set out in note 2(m) below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

2. PRINCIPAL ACCOUNTING POLICIES – continued

(b) Group accounting – continued

(i) Consolidation – continued

The gain or loss on the disposal of a subsidiary or an associated company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the 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.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

2. PRINCIPAL ACCOUNTING POLICIES – continued

(b) Group accounting – continued

(ii) *Associated companies – continued*

In arriving at the Group's share of results and net assets value of the associated companies holding hotel properties, the hotel properties owned by the associated companies were valued based on their open market value. In addition, no depreciation is provided on hotel properties held on leases of more than 20 years as the directors consider that the value of the hotel properties would not materially diminish over time due to the fact that hotel properties would be maintained in a continuous state of proper repair and improvements would be made thereto from time to time.

The Group's share of revaluation surplus of the hotel properties owned by associated companies is accounted for as other properties revaluation reserve in the consolidated accounts of the Group. Subsequent decreases in valuation are first set off against surplus from earlier valuations and debited to operating profit thereafter. Any subsequent increases are credited to operating profit up to the amount previously debited.

Certain associated companies have financial years, which are not co-terminus with that of the Company. Accordingly, these companies have been equity accounted for based on the latest audited results and the management accounts for the remaining period.

(c) Fixed assets

(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 long term investment potential, any rental income being negotiated at arm's length.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

2. PRINCIPAL ACCOUNTING POLICIES – continued

(c) Fixed assets – continued

(i) *Investment properties – continued*

Investment properties are valued annually by independent professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and debited to operating profit thereafter. Any subsequent increases are credited to operating profit up to the amount previously debited.

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

(ii) *Other fixed assets*

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of other fixed assets is calculated to write off their costs less accumulated impairment losses on a straight line basis over their estimated useful lives to the Group. The principal annual rates of depreciation are as follows:

Furniture, fixtures and equipment	10% – 20%
Motor vehicles and others	10% – 25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account.

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

2. PRINCIPAL ACCOUNTING POLICIES – continued

(c) Fixed assets – continued

(ii) Other fixed assets – continued

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(d) Properties held for/under development

Properties held for/under development comprise land at cost or, in the case of properties previously held by the Group for other purposes, carrying value as at the date of reclassification, and development costs including construction expenditure and attributable interest and professional charges capitalised during the development period, less incidental rental income and any accumulated impairment losses.

(e) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries or associated companies at the date of acquisition.

Goodwill on acquisition occurring on or after 1 April 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1 April 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(e) Goodwill/negative goodwill – continued

For acquisitions on or after 1 April 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1 April 2001, negative goodwill was taken directly to reserves on acquisition.

(f) Investments in securities

Investment securities are stated at cost less any provision made to the extent that the directors consider significant permanent diminution in value has taken place. The carrying amounts of these investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments is reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Other investments

Investments in club debentures are stated at cost less impairment losses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent, which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

2. PRINCIPAL ACCOUNTING POLICIES – continued

(i) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the acquisition cost or, in the case of properties previously held by the Group for other purposes, carrying value as at the date of reclassification. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet as cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from date of investment.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed 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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(m) Deferred taxation

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 and associated companies, 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.

In prior years, 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 revised SSAP 12 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.

As detailed in the note 24, opening retained profits at 1 April 2002 and 2003 have been reduced by HK\$11,036,000 and HK\$10,088,000 respectively. Opening revaluation reserve on investment properties at 1 April 2002 and 2003 have been increased by HK\$591,000 and HK\$6,430,000 respectively. This change has resulted in an increase in deferred tax liabilities at 31 March 2003 by HK\$1,030,000 and decrease in investments in associated companies at 31 March 2003 by HK\$2,628,000. The loss for the year ended 31 March 2003 has been reduced by HK\$948,000.

(n) Revenue recognition

Revenues from the sale of property interests and securities trading are recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Operating lease rental income is recognised on a straight line basis over the lease periods.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

2. PRINCIPAL ACCOUNTING POLICIES – continued

(n) Revenue recognition – continued

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(o) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement scheme obligations*

The Group participates in a master trust scheme provided by an independent Mandatory Provident Fund (“MPF”) service provider to comply with the requirements under the MPF Schemes Ordinance. Contributions paid and payable by the Group to the scheme are charged to the profit and loss account as incurred.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Segment reporting

The Group has determined that business segments be presented as the primary reporting format. No geographical analysis is presented as less than 10% of the consolidated turnover, consolidated loss and consolidated assets are attributable to markets outside Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(q) Segment reporting – continued

Unallocated costs represent corporate expenses. Segment assets comprise properties, deposits for properties and investments, operating assets and bank balances. Segment liabilities comprise operating liabilities, taxation, bank borrowings and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

(r) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates 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 in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement of reserves.

(s) Leases

(i) Finance leases

Leases where substantially all the risks and rewards of ownership of assets are transferred to the lessees are accounted for as finance leases. The amount capitalised as an asset at the inception is the present value of minimum lease payments payable during the term of the lease. The corresponding leasing commitments less the interest element are recorded as obligations under finance leases. Rentals payable in respect of finance leases are apportioned between finance charges and reduction of outstanding lease obligations based upon the interest rates implicit in the relevant leases.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

3. REVENUES AND TURNOVER

The Group is principally engaged in property development and investment, securities investment and trading, hotel ownership and investment holding. Revenues recognised during the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of property interests	16,380	159,490
Rental income	74,460	77,672
Proceeds from securities trading	–	1,631
Dividend income from other investments	–	46
	90,840	238,839
Other revenues		
Interest income	10,565	17,459
Guaranteed net rental receipt (note i)	16,721	–
Other income	1,066	5,092
	28,352	22,551
Total revenues	119,192	261,390

Note i:

On 20 June 2003, Winsworld Properties Limited (“Winsworld”), a wholly owned subsidiary of the Company entered into a management contract (“Management Contract”) with Verywell Services Limited (“Verywell”), a wholly owned subsidiary of Besteam after the Reorganisation. Pursuant to the Management Contract, Verywell agreed to manage and handle all matters in relation to the management of the investment properties owned by Winsworld for a period of three years commencing on 26 June 2003. Winsworld is entitled to an annual guaranteed net rental receipt, (being the rental receipt less the outgoings as described in the Management Contract) of HK\$78 million for the contract period. The rental income, expense and guaranteed net rental receipt are accounted for in the accounts of the Group to the effect that the guaranteed net rental receipt is recognised on a straight line basis over the contract period.

(a) Primary reporting format – business segments

The Group is organised into three main business segments:

- Property rental
- Property development
- Securities investment and trading

Other operations of the Group comprise hotel ownership, which is undertaken by a subsidiary in the current year and associated companies formerly held by the Group in prior year.

There are no sales or other transactions between the business segments.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

3. REVENUES AND TURNOVER – continued

(a) Primary reporting format – business segments – continued

	Property rental 2004 HK\$'000	Property development 2004 HK\$'000	Securities investment and trading 2004 HK\$'000	Other operations 2004 HK\$'000	Unallocated 2004 HK\$'000	Group 2004 HK\$'000
Turnover	74,460	16,380	-	-	-	90,840
Segment results	76,204	3,356	42	-	-	79,602
Unallocated corporate expenses (net)						(32,962)
Reorganisation cost						(38,609)
						8,031
Interest income						10,565
Finance costs						(13,609)
Share of results of associated companies	-	(23)	-	(8,541)	-	(8,564)
Loss before taxation						(3,577)
Taxation						(7,352)
Loss after taxation						(10,929)
Minority interests						(1,474)
Loss attributable to shareholders						(12,403)
Segment assets	1,668,771	-	-	280,998	-	1,949,769
Unallocated corporate assets						642,160
Consolidated total assets						2,591,929
Segment liabilities	636,911	-	-	160,000	-	796,911
Deferred tax liabilities						3,661
Unallocated corporate liabilities						61,028
Consolidated total liabilities						861,600
Capital expenditure	1,435	-	-	-	2,858	4,293
Depreciation	-	-	-	-	719	719

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

3. REVENUES AND TURNOVER – continued

(a) Primary reporting format – business segments – continued

	Property rental 2003 HK\$'000	Property development 2003 HK\$'000	Securities investment and trading 2003 HK\$'000	Other operations 2003 HK\$'000	Unallocated 2003 HK\$'000	As restated Group 2003 HK\$'000
Turnover	<u>77,672</u>	<u>159,490</u>	<u>1,677</u>	<u>-</u>	<u>-</u>	<u>238,839</u>
Segment results	<u>69,201</u>	<u>(30,631)</u>	<u>(586)</u>	<u>-</u>	<u>-</u>	<u>37,984</u>
Unallocated corporate expenses (net)						<u>(42,294)</u>
Interest income						(4,310)
Finance costs						17,459
Share of results of associated companies	-	(143,497)	-	45,631	-	(97,866)
Loss before taxation						(106,754)
Taxation						<u>(4,460)</u>
Loss after taxation						(111,214)
Minority interests						<u>(18,335)</u>
Loss attributable to shareholders						<u>(129,549)</u>
Segment assets	1,558,823	339,858	1,729	-	-	1,900,410
Investments in associated companies	-	(93,157)	-	1,018,843	-	925,686
Deferred tax assets						223
Unallocated corporate assets						<u>939,065</u>
Consolidated total assets						<u>3,765,384</u>
Segment liabilities	18,093	157,513	-	-	-	175,606
Deferred tax liabilities						1,253
Unallocated corporate liabilities						<u>782,186</u>
Consolidated total liabilities						<u>959,045</u>
Capital expenditure	4,393	-	-	-	36	4,429
Depreciation	-	-	-	-	1,677	1,677
Impairment of properties held for/under development	-	(70,616)	-	-	-	(70,616)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

3. REVENUES AND TURNOVER – continued

- (b) No geographical analysis is provided as less than 10% of the consolidated turnover, consolidated loss and consolidated assets of the Group are attributable to markets outside Hong Kong.

4. PROFIT FROM OPERATIONS

	2004 HK\$'000	Group 2003 HK\$'000
Profit from operations is stated after crediting and charging the following:		
Crediting		
Gross rental income from investment properties	74,460	77,672
Less: outgoings	<u>(9,884)</u>	<u>(3,908)</u>
Net rental income from investment properties	64,576	73,764
Realised and unrealised gains on other investments	<u>42</u>	<u>–</u>
Charging		
Auditors' remuneration		
– provision for current year	1,360	831
– over provision in prior years	<u>–</u>	<u>(84)</u>
	1,360	747
Operating leases of land and buildings	2,410	2,576
Depreciation of fixed assets	719	1,677
Bad debts written off and provision for bad debts (net)	1,738	4,563
Cost of properties sold	13,024	119,505
Realised and unrealised losses on other investments	–	632
Loss on disposal of fixed assets	<u>–</u>	<u>211</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

5. STAFF COSTS

The amount of staff costs (including directors' emoluments as disclosed in note 11) charged to the consolidated profit and loss account represents:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries and allowances	18,648	20,913
Retirement benefit costs (note 9)	191	341
	<u>18,839</u>	<u>21,254</u>

6. FINANCE COSTS

Finance costs comprise the following:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts		
– wholly payable within five years	1,398	5,102
– not wholly payable within five years	12,332	20,053
Interest on other loans		
– wholly payable within five years	305	22
Interest element of finance lease	25	–
	<u>14,060</u>	<u>25,177</u>
Total borrowing costs incurred	14,060	25,177
Less: amounts capitalised in properties held for/under development	(877)	(3,500)
	<u>13,183</u>	<u>21,677</u>
Bank facilities arrangement fee	426	360
	<u>13,609</u>	<u>22,037</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

7. TAXATION

- (a) Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits for the year. Overseas taxation is provided for the overseas subsidiaries in accordance with the tax laws of the countries in which the entities operate.

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2004	As restated
	HK\$'000	2003
		HK\$'000
Hong Kong profits tax		
– provision for current year	6,141	1,600
– under provision in prior years	47	–
Overseas taxation		
– under provision in prior years	7	62
	6,195	1,662
Deferred taxation resulting from		
– origination and reversal of temporary differences	1,352	(1,493)
– increase in tax rate	–	865
	7,547	1,034
Share of taxation attributable to associated companies	(195)	3,426
	7,352	4,460

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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

7. TAXATION – continued

(b) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(3,577)</u>	<u>(106,754)</u>
Calculated at a taxation rate of 17.5% (2003: 16%)	(626)	(17,081)
Income not subject to taxation	(1,250)	(14,176)
Expenses not deductible for tax purposes	7,817	32,972
Effect on deferred tax liabilities resulting from an increase in tax rate during the year	–	865
Unrecognised tax losses and deductible temporary differences	1,224	1,872
Others	<u>187</u>	<u>8</u>
Taxation charge	<u><u>7,352</u></u>	<u><u>4,460</u></u>

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8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Included in the loss attributable to shareholders is a profit of HK\$723,531,000 (2003: loss of HK\$4,710,000) which is dealt with in the Company's own accounts.

9. RETIREMENT BENEFIT COSTS

Pursuant to the MPF Schemes Ordinance, which became effective on 1 December 2000, all employees of the Group in Hong Kong aged between 18 and 65 are enrolled in the MPF Scheme.

The MPF Scheme is a master trust scheme established under trust arrangement and governed by the laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. The Group and the employees contribute to the MPF Scheme (the "MPF contributions") in accordance with the MPF Schemes Ordinance. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

The MPF contributions made by the Group during the year amounted to HK\$191,000 (2003: HK\$341,000) of which HK\$18,000 (2003: HK\$28,000) remains payable at the year end.

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10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$12,403,000 (2003: HK\$129,549,000) and on the weighted average number of 1,296,433,434 shares (2003: 1,286,482,836 shares) in issue during the year.

For the years ended 31 March 2004 and 2003, diluted loss per share is not shown as the potential ordinary shares are anti-dilutive.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees	150	120
Inducement fees	4,000	–
Salaries, allowances and benefits in kind	8,717	6,976
MPF contributions	41	36
	<u>12,908</u>	<u>7,132</u>

Directors' fees disclosed above include HK\$150,000 (2003: HK\$24,000) paid to independent non-executive directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2004	2003
HK\$		
0 – 1,000,000	14	7
1,000,001 – 1,500,000	–	1
2,000,001 – 2,500,000	–	1
3,500,001 – 4,000,000	–	1
4,500,001 – 5,000,000	1	–
5,500,001 – 6,000,000	1	–
	<u>16</u>	<u>10</u>

There were no arrangements under which any director waived or agreed to waive any emoluments in respect of the years ended 31 March 2004 and 31 March 2003.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: three) directors whose emoluments are reflected in the analysis presented in note 11(a) above. The emoluments payable to the remaining one (2003: two) individuals during the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	629	1,674
MPF contributions	–	24
	<u>629</u>	<u>1,698</u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2004	2003
HK\$		
0 – 1,000,000	<u>1</u>	<u>2</u>

NOTES TO THE ACCOUNTS

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12. FIXED ASSETS

Group

	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and others HK\$'000	Total HK\$'000
Cost or valuation				
At 31 March 2003	1,552,820	7,450	6,610	1,566,880
Additions	1,435	659	2,199	4,293
Adjustment on revaluation (note 24)	88,565	–	–	88,565
Distribution in specie (note 29(c))	(22,820)	(7,450)	(6,610)	(36,880)
At 31 March 2004	1,620,000	659	2,199	1,622,858
Accumulated depreciation				
At 31 March 2003	–	4,490	6,070	10,560
Charge for the year	–	357	362	719
Distribution in specie (note 29(c))	–	(4,783)	(6,138)	(10,921)
At 31 March 2004	–	64	294	358
Net book value				
At 31 March 2004	1,620,000	595	1,905	1,622,500
At 31 March 2003	1,552,820	2,960	540	1,556,320

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

12. FIXED ASSETS – continued

Group – continued

An analysis of the cost or valuation of the above assets at 31 March 2004 is set out as follows:

	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and others HK\$'000	Total HK\$'000
At cost	–	659	2,199	2,858
At 2004 professional valuation	<u>1,620,000</u>	<u>–</u>	<u>–</u>	<u>1,620,000</u>
	<u><u>1,620,000</u></u>	<u><u>659</u></u>	<u><u>2,199</u></u>	<u><u>1,622,858</u></u>

An analysis of the cost or valuation of the above assets at 31 March 2003 is set out as follows:

	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and others HK\$'000	Total HK\$'000
At cost	–	7,450	6,610	14,060
At 2003 professional valuation	<u>1,552,820</u>	<u>–</u>	<u>–</u>	<u>1,552,820</u>
	<u><u>1,552,820</u></u>	<u><u>7,450</u></u>	<u><u>6,610</u></u>	<u><u>1,566,880</u></u>

The Group's interests in investment properties are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on leases of over 50 years	<u>1,620,000</u>	<u>1,548,070</u>
Outside Hong Kong, held on leases of over 50 years	<u>–</u>	<u>4,750</u>
	<u><u>1,620,000</u></u>	<u><u>1,552,820</u></u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

12. FIXED ASSETS – continued

Group – continued

Investment properties were revalued at 31 March 2004 on an open market value basis by independent property valuers, DTZ Debenham Tie Leung Limited.

At 31 March 2004, the carrying value of investment properties mortgaged as securities for banking facilities granted to the Group (note 26) amounted to HK\$1,620,000,000 (2003: HK\$1,540,350,000).

Company

	Furniture, fixtures and equipment HK\$'000	
Cost		
Additions and at 31 March 2004	74	55
Accumulated depreciation		
Charge for the year and at 31 March 2004	9	
Net book value		
At 31 March 2004	65	
At 31 March 2003	–	

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

13. OTHER INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Club Debentures – at cost	<u>1,350</u>	<u>–</u>
Listed in Hong Kong	–	1,514
Listed outside Hong Kong	<u>–</u>	<u>70</u>
Market value	<u>–</u>	<u>1,584</u>

14. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2004 HK\$'000	As restated 2003 HK\$'000
Share of net assets	5	500,018
Amounts due from associated companies	–	423,078
Amounts due to associated companies	<u>(5)</u>	<u>(38)</u>
	<u>–</u>	<u>923,058</u>

As part of the Reorganisation detailed in note 1 to the accounts, the unaudited results of the Besteam Group have been included in the consolidated profit and loss account from 1 April 2003 to 20 June 2003, being the date when the shares of Besteam were distributed in specie to the shareholders of the Company. The share of losses of associated companies for the period up to 20 June 2003 based on the unaudited pro-forma consolidated results of Besteam Group was approximately HK\$8,564,000.

Particulars of the associated company as at 31 March 2004 are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Percentage holding
Victory Harvest Enterprises Limited	Hong Kong	Not yet commenced business	10,000 ordinary shares of HK\$1 each	50%

The amounts due from and due to associated companies are unsecured, non-interest bearing and have no fixed terms of repayment.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	<u>2,067,617</u>	<u>2,279,940</u>
	2,067,618	2,279,941
Less: Provision	<u>(283,539)</u>	<u>—</u>
	<u>1,784,079</u>	<u>2,279,941</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment, except for the amounts of HK\$1,274,246,000 and HK\$469,762,000 which carry interest at 1.75% and 0.5% per annum respectively (2003: nil).

Particulars of principal subsidiaries are set out in note 35 to the accounts.

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16. PROPERTIES HELD FOR/UNDER DEVELOPMENT

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cost		
Balance brought forward	230,300	240,135
Additions	5,175	60,781
Distribution in specie	<u>(235,475)</u>	<u>—</u>
	—	300,916
Less: impairment charge	<u>—</u>	<u>(70,616)</u>
Balance carried forward	<u>—</u>	<u>230,300</u>
Held on leases of between 10 to 50 years	<u>—</u>	<u>230,300</u>

Additions included capitalised interest of HK\$877,000 (2003: HK\$3,500,000).

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

17. INVESTMENT SECURITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted securities, at cost net of provision	—	6,001

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables (note (a))	2,856	5,816	—	—
Loan receivables (note (b))	363,931	113,967	123,837	—
Other receivables (note 3)	16,721	—	—	—
Deposits and prepayments	12,548	30,632	306	16
	<u>396,056</u>	<u>150,415</u>	<u>124,143</u>	<u>16</u>

(a) The ageing analysis of trade receivables, which represent rental receivable including interest on overdue balances, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	1,846	3,057
31 – 60 days	737	2,101
61 – 90 days	16	497
Over 90 days	257	161
	<u>2,856</u>	<u>5,816</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

– continued

- (b) Included in loan receivables is a loan of HK\$195,090,000 granted to the borrower to finance its acquisition of the entire equity interest in four companies (the “Target Companies”). The equity interest in one of the Target Companies is held by two companies (the “Registered Shareholders”), owned by a director of the Company, in trust for the borrower. The directors of the Company have confirmed that the borrower is not related to the Group or any of the Company’s directors or substantial shareholders. This loan is interest bearing at 5% per annum. Subsequent to the year end date, a first legal fixed mortgage over the issued share capital of the borrower and an assignment of future sales proceeds of a portion of the equity interest of one of the Target Companies were effected as securities for the loan. On 23 August 2004, the loan receivable was repaid by the assignment of a fixed deposit of HK\$200 million held in an overseas financial service company (the “FS Company”) by one of the Registered Shareholders to the Company on behalf of the borrower. The fixed deposit held in the FS Company bears interest at 3% per annum and is renewable every two months up to eight months from 20 August 2004.

The other loan receivables amounting to HK\$168,841,000 are granted to four borrowers to finance their acquisition of equity interest in various companies holding property projects. The loans bear interest ranging from 0.5% above the Hong Kong Prime Rate to 8% per annum and are secured by personal guarantees of the shareholders of the borrowers. Subsequent to the year end date, all these loans were repaid. The directors of the Company have confirmed that the borrowers are not related to the Group or any of the Company’s directors or substantial shareholders.

- (c) The loan receivable as at 31 March 2003 was disposed of by way of distribution in specie upon completion of the Reorganisation on 20 June 2003.

19. DEPOSITS FOR HOTEL PROPERTY

In October 2003, the Group entered into a sale and purchase agreement to acquire a hotel property (the “Hotel Property”), which was under development, for a consideration of HK\$660 million. During the year, part of the consideration was satisfied by cash of HK\$60 million, the issue by the Company of 24,442,408 shares at approximately HK\$2.45 per share totalling HK\$60 million (note 23) and convertible notes of HK\$160 million (note 27). Details of the acquisition are set out in the circular of the Company dated 3 November 2003. On 23 December 2004, the remaining consideration was settled by cash of HK\$30 million and the issue by City Promenade Limited (“Promenade”), the subsidiary which holds the Hotel Property, promissory notes of HK\$350 million in total. Promissory notes of HK\$320 million bear interest at rate of 3% per annum and will be matured on 23 December 2007. The remaining promissory notes of HK\$30 million have a term of three months and bear interest at rate of 10% per annum.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

20. PLEDGED DEPOSITS

The amounts represent deposits pledged to a bank in Hong Kong to secure banking facilities granted to the Group. The pledge over the deposits amounting to HK\$264,540,000 was released subsequent to the year end date.

21. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Construction cost payable (note (a))	–	22,491	–	–
Rental deposits (note (b))	15,899	16,336	–	–
Other payables and accrued charges	8,860	18,376	3,886	568
	24,759	57,203	3,886	568

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(a) The ageing analysis of the construction costs payable is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	–	17,446
31 – 60 days	–	4,886
61 – 90 days	–	159
	–	22,491

(b) Rental deposits are repayable when the tenancy contracts lapse.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

22. OTHER LOANS PAYABLE

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Amount due to a director (note (a))	10,018	–
Loan from a former director (note (b))	10,000	–
	<u>20,018</u>	<u>–</u>

(a) Amount due to a director is unsecured, non-interest bearing and was fully repaid subsequent to the year end date.

(b) Loan from a former director is unsecured, interest bearing at 4% per annum and was fully repaid subsequent to the year end date.

23. SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
Authorised:		
At 31 March 2003 and 2004	2,000,000,000	200,000
Issued and fully paid:		
At 1 April 2003	1,286,482,836	128,648
Issued during the year	24,442,408	2,444
At 31 March 2004	1,310,925,244	131,092

On 4 November 2003, 24,442,408 ordinary shares of HK\$0.1 each were issued at approximately HK\$2.45 each totalling HK\$60,000,000 as partial payment for the purchase consideration for acquisition of the Hotel Property (note 19).

All the shares in issue rank pari passu in all respects including all rights as to dividends, voting and capital.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

23. SHARE CAPITAL – continued

Under the share option scheme adopted by the Company on 8 September 1998 and expired on 8 September 2001, 79,682,000 and 24,518,000 share options were granted to certain directors of the Company and employees of the Group respectively during the year ended 31 March 2000.

On 18 March 2003, the Company entered into an agreement with the option holders (including certain directors) in relation, inter alia, to the cancellation of all the outstanding share options at a fee of HK\$0.32 per share option and the extension of the option period by six calendar months from 21 March 2003. This was approved by the shareholders of the Company at the special general meeting held on 5 May 2003.

On 26 June 2003, all these 104,200,000 share options were cancelled for a cash consideration of HK\$33,344,000 (note 1).

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

24. RESERVES

Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve on investment properties HK\$'000	Revaluation reserve on held for/ under develop- ment properties HK\$'000	Revaluation reserve on other properties HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2003, as previously reported	929,824	129	913,023	7,005	348,192	69,992	(15,851)	406,296	2,658,610
Change in accounting policy on deferred taxation (note 2(m))	-	-	6,430	-	-	-	-	(10,088)	(3,658)
At 1 April 2003, as restated	929,824	129	919,453	7,005	348,192	69,992	(15,851)	396,208	2,654,952
Surplus on revaluation (note 12)	-	-	88,565	-	-	-	-	-	88,565
Exchange differences on translation of accounts of a foreign subsidiary	-	-	-	-	-	-	(292)	-	(292)
Revaluation reserve realised upon disposal of properties	-	-	-	(1,011)	-	-	-	-	(1,011)
Share of revaluation deficit of associated companies	-	-	-	-	(2)	-	-	-	(2)
Distribution in specie (note 1)	(929,824)	-	31,454	(5,994)	(348,190)	(69,992)	16,143	119,379	(1,187,024)
Loss for the year	-	-	-	-	-	-	-	(12,403)	(12,403)
Deferred taxation charged to equity (note 28)	-	-	(1,104)	-	-	-	-	-	(1,104)
Issue of shares (note 23)	57,556	-	-	-	-	-	-	-	57,556
At 31 March 2004	57,556	129	1,038,368	-	-	-	-	503,184	1,599,237

All reserves as at 31 March 2004 are retained by the Company and its subsidiaries.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

24. RESERVES – continued

Group – continued

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Revaluation reserve on investment properties HK\$'000	Revaluation reserve on properties held for/ under develop- ment HK\$'000	Revaluation reserve on other properties HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2002, as previously reported	929,824	129	1,290,289	15,899	348,195	69,992	(15,559)	536,793	3,175,562
Change in accounting policy on deferred taxation (note 2(m))	-	-	591	-	-	-	-	(11,036)	(10,445)
At 1 April 2002, as restated	929,824	129	1,290,880	15,899	348,195	69,992	(15,559)	525,757	3,165,117
Deficit on revaluation	-	-	(377,193)	-	-	-	-	-	(377,193)
Revaluation reserve realised upon disposal of properties	-	-	(73)	(8,894)	-	-	-	-	(8,967)
Exchange differences on translation of accounts of a foreign subsidiary	-	-	-	-	-	-	(292)	-	(292)
Share of revaluation deficit of associated companies	-	-	-	-	(3)	-	-	-	(3)
Loss for the year	-	-	-	-	-	-	-	(129,549)	(129,549)
Deferred taxation credited to equity (note 28)	-	-	5,839	-	-	-	-	-	5,839
At 31 March 2003	929,824	129	919,453	7,005	348,192	69,992	(15,851)	396,208	2,654,952
Retained by:									
Company and subsidiaries	929,824	129	919,453	7,005	-	(6,426)	(15,851)	320,800	2,154,934
Associated companies	-	-	-	-	348,192	76,418	-	75,408	500,018
	929,824	129	919,453	7,005	348,192	69,992	(15,851)	396,208	2,654,952

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

24. RESERVES – continued

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 March 2002	929,824	129	1,225,698	2,155,651
Loss for the year	–	–	(4,710)	(4,710)
At 31 March 2003	929,824	129	1,220,988	2,150,941
Distribution in specie	(929,824)	–	(403,092)	(1,332,916)
Profit for the year	–	–	723,531	723,531
Issue of share capital (note 23)	57,556	–	–	57,556
At 31 March 2004	57,556	129	1,541,427	1,599,112

25. OBLIGATIONS UNDER FINANCE LEASE

At 31 March 2004, the Group's obligations under finance lease are repayable as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	354	–
In the second year	354	–
In the third to fifth year	414	–
	<u>1,122</u>	<u>–</u>
Future finance charges on finance lease	(92)	–
	<u>1,030</u>	<u>–</u>
The present value of finance lease obligations is as follows:		
Within one year	306	–
In the second year	324	–
In the third to fifth year	400	–
	<u>1,030</u>	<u>–</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

26. BANK LOANS

	2004 HK\$'000	Group 2003 HK\$'000
Bank loans, secured	612,500	894,089
Bank loans, unsecured	35,000	–
	<u>647,500</u>	<u>894,089</u>
Current portion	(91,000)	(49,882)
	<u>556,500</u>	<u>844,207</u>

The analysis of the above is as follows:

Wholly repayable within five years	35,000	204,232
Not wholly repayable within five years	612,500	689,857
	<u>647,500</u>	<u>894,089</u>

At 31 March 2004, the Group's bank loans are repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	91,000	49,882
In the second year	64,000	259,636
In the third to fifth year	249,000	222,987
After the fifth year	243,500	361,584
	<u>647,500</u>	<u>894,089</u>

The bank loans are secured by first charges on investment properties, other specified assets of the Group and corporate guarantees of the Company. On 17 June 2004, the Group increased its term loan facility limit by HK\$300,500,000 to HK\$900,000,000. The new facility shall be repaid by eleven quarterly installments of HK\$15,000,000 each, plus a final payment of HK\$735,000,000 at the end of three years from the date of drawdown.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

27. CONVERTIBLE NOTES

The convertible notes with principal amount of HK\$160 million (the "Notes") are unsecured and interest free until 23 December 2004 (note 19) when the Notes became secured by a mortgage of the Hotel Property together with the shares of Promenade, interest bearing at 3% per annum and convertible into ordinary shares of the Company at HK\$3 per share, subject to adjustment, if any, at the option of the notes holders. The Notes will be matured by 5 November 2006.

28. DEFERRED TAX LIABILITIES

Deferred taxation is calculated in full on temporary differences under the liability method using a taxation rate of 17.5%.

The movement on the deferred tax liabilities account is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1 April, as restated	1,030	7,497
Deferred taxation charged/(credited) to consolidated profit and loss account (note 7)	1,352	(628)
Taxation charged/(credited) to equity (note 24)	1,104	(5,839)
Distribution in specie (note 29(c))	175	–
	<u>3,661</u>	<u>1,030</u>
At 31 March	<u>3,661</u>	<u>1,030</u>

The deferred taxation charged/ credited to equity during the year was related to fair value adjustment on investment properties dealt with in equity.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

28. DEFERRED TAX LIABILITIES – continued

The movement in deferred tax liabilities and assets (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax liabilities	Accelerated tax depreciation		Provision for property held for/under development		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April, as restated	811	4,759	-	3,046	442	453	1,253	8,258
Charged/(credited) to consolidated profit and loss account	1,431	1,891	-	(3,046)	(55)	(11)	1,376	(1,166)
Charged/(credited) to equity (note 24)	1,104	(5,839)	-	-	-	-	1,104	(5,839)
Distribution in specie	(72)	-	-	-	-	-	(72)	-
	<u>3,274</u>	<u>811</u>	<u>-</u>	<u>-</u>	<u>387</u>	<u>442</u>	<u>3,661</u>	<u>1,253</u>
At 31 March	<u>3,274</u>	<u>811</u>	<u>-</u>	<u>-</u>	<u>387</u>	<u>442</u>	<u>3,661</u>	<u>1,253</u>

Deferred tax assets	Tax losses		Others		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April, as restated	-	(574)	(223)	(187)	(223)	(761)
Charged/(credited) to consolidated profit and loss account	-	574	(24)	(36)	(24)	538
Distribution in specie	-	-	247	-	247	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(223)</u>	<u>-</u>	<u>(223)</u>
At 31 March	<u>-</u>	<u>-</u>	<u>-</u>	<u>(223)</u>	<u>-</u>	<u>(223)</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004	As restated 2003
	HK\$'000	HK\$'000
Deferred tax assets	-	(223)
Deferred tax liabilities	<u>3,661</u>	<u>1,253</u>
	<u>3,661</u>	<u>1,030</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

28. DEFERRED TAX LIABILITIES – continued

Deferred income tax assets are recognised for tax losses carry forwards and deductible temporary differences to the extent that realisation of the related tax benefit through the future taxable profits is probable. Details of unrecognised temporary differences as at the year end are as follows:

	2004	As restated
	HK\$'000	2003 HK\$'000
Deductible temporary differences	–	348,800
Unutilised tax losses	835	–

There is no expiry date for the above temporary differences.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash generated from operations

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(3,577)	(106,754)
Share of results of associated companies	8,564	97,866
Impairment of properties held for/ under development	–	70,616
Revaluation reserve realised upon disposal of properties held for/under development	(1,838)	(16,171)
Exchange gain	(292)	(292)
Interest income	(10,565)	(17,459)
Interest expenses	13,183	21,677
Realised and unrealised (gains)/losses on investments securities	(42)	632
Depreciation	719	1,677
Loss on disposal of fixed assets	–	211
Unclaimed dividends forfeited	–	(166)
	<hr/>	<hr/>
Operating profit before working capital changes	6,152	51,837
Decrease in long term receivables	51	–
(Increase)/decrease in trade and other receivables, deposits and prepayments	(24,757)	15,134
Decrease in properties held for sale	14,592	128,406
Increase/(decrease) in accounts payable, deposits received and accrued charges	9,208	(7,869)
	<hr/>	<hr/>
Net cash generated from operations	5,246	187,508

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

(b) Analysis of changes in financing during the year

	Share capital and premium HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Minority interests HK\$'000	Obligations under finance lease HK\$'000
At 31 March 2002	1,058,472	816,245	–	114,844	–
Cash inflow/(outflow) from financing	–	77,844	–	(103,185)	–
Interest due to minority shareholders ¹	–	–	–	22	–
Revaluation reserve attributable to minority shareholders realised upon disposal of properties ¹	–	–	–	(7,277)	–
Profit for the year attributable to minority shareholders ¹	–	–	–	18,335	–
At 31 March 2003	1,058,472	894,089	–	22,739	–
Cash inflow/(outflow) from financing	–	(45,378)	20,018	(1,120)	(270)
Revaluation reserve attributable to minority shareholders realised upon disposal of properties ¹	–	–	–	(827)	–
Profit for the year attributable to minority shareholders ¹	–	–	–	1,474	–
Inception of finance lease ¹	–	–	–	–	1,300
Issue of shares (notes 23 & 24)	60,000	–	–	–	–
Distribution in specie (notes 1, 24 & 29(c))	(929,824)	(201,211)	–	(22,266)	–
At 31 March 2004	188,648	647,500	20,018	–	1,030

¹ representing non cash transactions.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

(c) Distribution in specie (note 1)

	2004 HK\$'000
Net assets distributed	
Fixed assets	25,959
Investments in associated companies	1,008,736
Properties held for/under development	235,475
Investment securities	6,001
Long term receivables	6,608
Accounts receivable, deposits and prepayments	143,322
Properties held for sale	86,543
Other investments	1,626
Deferred tax assets	175
Cash and bank balances	37,738
Accounts payable, deposits received and accrued charges	(41,959)
Taxation	(5,723)
Bank loans	(201,211)
Minority interests	(22,266)
Amount due to a former immediate holding company	(94,000)
	<u>1,187,024</u>

Analysis of the net cash outflow in respect of the distribution in specie:

	2004 HK\$'000
Cash and bank balances distributed	<u>37,738</u>

30. CONTINGENT LIABILITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	<u>–</u>	<u>–</u>	<u>236,030</u>	<u>344,689</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

31. COMMITMENTS

(a) Capital commitments in respect of Hotel Property and furniture, fixtures and equipment

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	<u>381,956</u>	<u>71,417</u>

(b) Operating leases

- (i) At 31 March 2004, the Group and the Company had future aggregate minimum lease payments payable under non-cancellable operating leases as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Land and buildings				
Not later than one year	4,037	1,174	1,193	-
Later than one year and not later than five years	<u>3,727</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>7,764</u>	<u>1,174</u>	<u>1,193</u>	<u>-</u>

- (ii) At 31 March 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Land and buildings		
Not later than one year	61,759	51,811
Later than one year and not later than five years	83,626	72,126
Later than five years	<u>-</u>	<u>377</u>
	<u>145,385</u>	<u>124,314</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

32. RELATED PARTY TRANSACTIONS

- (a) The following is a summary of the significant related party transactions carried out in the normal course of the Group's business during the year, other than those disclosed elsewhere in the accounts.

	2004 HK\$'000	2003 HK\$'000
Rental expense (i)	960	–
Purchase of motor vehicles (ii)	390	–

- (i) The Group rented office premises, certain furniture and fixtures and car parks for three years effective from 1 October 2003 at HK\$160,000 per month from Mexan International Limited ("MIL"). MIL is beneficially owned as to 65% by Mr. Lau Kan Shan ("Mr. Lau"), an executive director, chairman and controlling shareholder of the Company.

- (ii) The Group purchased motor vehicles from MIL in September 2003 at prices and terms no less favourable than in third party transactions.

- (b) During the year, the Group advanced to companies controlled by Mr. Lau as follows:–

	Maximum amount outstanding during the year HK\$'000
Mexan Infrastructure Investment Limited	400,000
Mexan Holdings Limited ("MHL")	400,000

The above advances were interest free and were repaid the day after the advances were made.

33. SUBSEQUENT EVENTS

(a) Acquisition of investment

On 1 June 2004, the Group entered into an equity transfer agreement to acquire 44.9% equity interest of Ningbo Beilun Port Expressway Company Limited ("Beilun") for cash consideration between HK\$270 million and HK\$320 million from MHL, which is 99.99% beneficially owned by Mr. Lau. Beilun holds the operation right of Ningbo Beilun Port Expressway until 7 November 2037. On 2 June 2004, HK\$27,000,000 was paid to MHL as purchase deposit. The consideration has been agreed of HK\$270 million, after taking into account of a business valuation performed on Beilun. Details of the transactions are set out in the announcements of the Company dated 1 June 2004 and 5 November 2004. On 7 December 2004, the second instalment of the purchase consideration of HK\$135 million was paid to MHL by the credit of the said amount from a fixed deposit in the FS Company to MHL.

(b) Option agreements

- (i) On 2 June 2004, the Group entered into a put option agreement with a third party (the "Purchaser A") whereby an option premium of HK\$120 million was paid to Purchaser A to acquire a right (the "Put Option A") to require Purchaser A to purchase the entire equity interest in Winsworld which owns the investment properties at a consideration of HK\$1,600 million. The carrying value of the subject properties as at 31 March 2004 was HK\$1,620 million (note 12). Put Option A was exercisable at any time within two years from 30 June 2004. The Group and Purchaser A agreed on 20 July 2004 to cancel the Put Option A and a cancellation agreement was signed on 17 December 2004. The option premium of HK\$120 million was recovered from Purchaser A in full in December 2004.
- (ii) On 28 June 2004, the Group entered into a put option agreement with a third party (the "Purchaser B") whereby an option premium of HK\$100 million was paid to Purchaser B to acquire a right (the "Put Option B") to require Purchaser B to purchase the entire equity interest in Promenade which will own the Hotel Property (note 19), at a consideration of HK\$910 million. Put Option B was exercisable at any time within two years from 29 June 2004. The Group and Purchaser B agreed on 22 July 2004 to cancel the Put Option B and a cancellation agreement was signed on 16 December 2004. The option premium of HK\$100 million was recovered from Purchaser B in full in December 2004.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

33. SUBSEQUENT EVENTS – continued

(b) Option agreements – continued

- (iii) On 24 June 2004, the Group entered into a call option agreement with three third parties (collectively the “Vendors”) whereby an option premium of HK\$55 million was paid to the Vendors to acquire a right (the “Call Option”) to buy 65% equity interest in a company which holds equity interest in a number of toll road projects in mainland China at a consideration of HK\$500 million. The Call Option was exercisable at any time within two years from 29 June 2004. On 23 December 2004, the Call Option was cancelled and partial refund of option premium in the amount of HK\$19 million was received on 24 December 2004. The remaining balance of HK\$36 million shall be refunded to the Group no later than two months from 23 December 2004.

The directors are satisfied that Purchaser A, Purchaser B and the Vendors are all unrelated to the Group or any of the Company’s directors or substantial shareholders.

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(c) Fixed deposits

In addition to the fixed deposit of HK\$200 million assigned to the Company as described in note 18(b), in August 2004, the Company placed a total sum of HK\$280 million as fixed deposits with the FS Company. The term of the deposits is six months and the interest rate is 4% per annum.

(d) Loan receivable

In May 2004, the Company made an unsecured loan of HK\$35 million to a borrower to finance its acquisition of a property project in the PRC. The loan bears interest at 6% per annum and is repayable in three months from the date of drawdown. The loan was subsequently repaid in August 2004. The directors of the Company are satisfied that the borrower is not related to the Group or any of the Company’s directors or substantial shareholders.

33. SUBSEQUENT EVENTS – continued

(e) Disposal of investment properties

On 15 October 2004, the Group entered into a conditional sale and purchase agreement (“S & P Agreement”) with a wholly-owned subsidiary of a listed company in Hong Kong (the “Purchaser”) to dispose the entire interests in the investment properties at Elizabeth House for a consideration of HK\$1,342 million and a purchase deposit of HK\$134 million was received. On 13 December 2004, the Group informed the Purchaser, that in the opinion of the Group, the S & P Agreement is no longer in force for reasons detailed in the announcement of the Company dated 15 December 2004. The Purchaser considered the S & P Agreement remains valid and binding on the Group and has indicated that it reserved all of its rights in respect of the S & P Agreement.

(f) Acquisition of investment properties

- (i) On 24 December 2004, the Group entered into a sale and purchase agreement to acquire certain properties located at “Datang Shengshi Villa II” (“Property A”) in Shanghai, for a consideration of HK\$117 million from a third party. The value of Property A as of 20 November 2004 was RMB129 million, as valued by a PRC certified public valuer.
- (ii) On 24 December 2004, the Group entered into a sale and purchase agreement to acquire a property located at Beizhailu, Xijiao, Shanghai (“Property B”), for cash consideration of HK\$105 million from a third party. The value of Property B as of 20 December 2004 was RMB135 million, as valued by a PRC certified public valuer.

34. ULTIMATE HOLDING COMPANY

The directors regard Mexan Group Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company with effect from 26 June 2003. Prior to that, the ultimate holding company was United Goal Development Limited, a company incorporated in the British Virgin Islands.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The principal subsidiaries of the Company as at 31 March 2004 are set out below:

Name of subsidiary	Place of incorporation	Particulars of issued share capital	Percentage holding		Principal activities
			2004	2003	
<i>Shares held indirectly:</i>					
Mexan Resources Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	–	Provision of management services
Winsworld Properties Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100	100	Property investment
Pacific Land Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	–	Investment holding
Mexan Profits Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	–	Investment holding
City Promenade Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	–	Property holding

All of the above subsidiaries operate in Hong Kong.

The above table includes the subsidiaries of the Company, which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group.

36. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 31 December 2004.