

# Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 14 to the financial statements.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKAS"s) and Hong Kong Financial Reporting Standards ("HKFRS"s) (hereinafter collectively referred to as "New HKFRS"s) which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these New HKFRSs in the financial statements for the period.

The Company has commenced considering the potential impact of these New HKFRSs but is not yet in a position to determine whether these New HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These New HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

During the period, the Company changed its financial year end date from 31 March to 31 December. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which cover nine months period from 1 April 2004 to 31 December 2004. For prior periods, the consolidated financial statements incorporated the financial statements of the Company and its subsidiaries up to 31 March each year. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a 12 month period from 1 April 2003 to 31 March 2004 and therefore may not be comparable with amounts shown for the current period.

The results of subsidiaries and associates acquired and disposed of during the period/year are included in the consolidated income statement from and up to their effective dates of acquisition and disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Negative goodwill

Negative goodwill represents the excess of the Group's interest in fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

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. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful lives of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate.

On disposal, the attributable amount of negative goodwill is included in the determination of the profit or loss on disposal.

#### Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed.

Sales of developed properties are recognised upon execution of the sale agreements.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the term of the leases.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuation at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided in respect of investment properties except where the unexpired terms is twenty years or less.

#### Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Construction in progress is not depreciated until completion of construction.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method, at the following rates per annum:

Land use right	Over the lease term
Buildings	1.67% to 3.60%
Plant and machinery	5% to 20%
Furniture, fixtures and computer equipment	10% to 20%
Motor vehicles	20%

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Subsidiaries

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

#### Associates

The results and assets and liabilities of the associates are incorporated in the consolidated financial statements using the equity method of accounting.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period/year. In the consolidated balance sheet, interest in associates are stated at the Group's share of the net assets of the associates less the negative goodwill in so far as it has not already been released to income, less any identified impairment loss.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### Properties under development

Properties under development are stated at lower of cost and net realisable value. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets.

#### Borrowing costs

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

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Taxation

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 period/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 periods and it further excludes items that are never taxable or deductible.

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies

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

On consolidation, the results, assets and liabilities of the Group's foreign operations are translated at the rates ruling at the balance sheet date. Income and expense items are translated at the average exchange rate for the period/year. All exchange differences arising on translation are dealt with in the exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operations are disposed of.

#### Operating leases

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

#### Retirement benefits costs

Payments to the defined contribution retirement benefits schemes are charged as expenses as they fall due.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 4. SEGMENT INFORMATION

#### Business Segments

The Group's principal activities are trade and manufacture of cement, trade of goods, property investment and investments holding. During the period, the Company acquired new subsidiaries and a new principal activity of property development is added. These five business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

	Trade and manufacture of cement <i>HK\$'000</i>	Trade of goods <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Investments holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>For the period from 1 April 2004 to 31 December 2004</b>						
Turnover						
Segment turnover	<b>81,518</b>	<b>129,438</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>210,992</b>
Result						
Segment result	<b>(15,879)</b>	<b>45</b>	<b>(32,876)</b>	<b>(303)</b>	<b>(23)</b>	<b>(49,036)</b>
Unallocated corporate expenses						<b>(17,884)</b>
Loss from operations						<b>(66,920)</b>
Finance costs						<b>(1,787)</b>
Gain on disposal of subsidiaries	-	-	<b>162,989</b>	-	-	<b>162,989</b>
Share of results of associates	-	-	-	-	<b>(261)</b>	<b>(261)</b>
Profit before taxation						<b>94,021</b>
Taxation						<b>4,205</b>
Profit before minority interests						<b>98,226</b>
Minority interests						<b>5,573</b>
Net profit for the period						<b>103,799</b>
Other information						
Additions of property, plant and equipment	<b>20,113</b>	-	-	<b>12</b>	<b>164</b>	<b>20,289</b>
Impairment loss on property, plant and equipment	<b>(9,473)</b>	-	-	-	-	<b>(9,473)</b>
Depreciation and amortisation of property, plant and equipment	<b>(4,283)</b>	-	-	<b>(24)</b>	<b>(234)</b>	<b>(4,541)</b>
(Loss) gain on disposal of property, plant and equipment	<b>(2,368)</b>	-	-	<b>2</b>	-	<b>(2,366)</b>
Revaluation deficit recognised in respect of investment properties	-	-	<b>(6,262)</b>	-	-	<b>(6,262)</b>
Provision for a legal claim	-	-	<b>(32,792)</b>	-	-	<b>(32,792)</b>

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 4. SEGMENT INFORMATION (continued)

#### Business Segments (continued)

	Trade and manufacture of cement <i>HK\$'000</i>	Trade of goods <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Investments holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>As at 31 December 2004</b>						
Balance sheet						
Assets						
Segment assets	<u>92,531</u>	<u>638</u>	<u>84,870</u>	<u>216,041</u>	<u>234,426</u>	<u>628,506</u>
Consolidated total assets						<u>628,506</u>
Liabilities						
Segment liabilities	<u>30,527</u>	<u>6</u>	<u>39,403</u>	<u>52,709</u>	<u>6,793</u>	<u>129,438</u>
Unallocated corporate liabilities						<u>166,687</u>
Consolidated total liabilities						<u>296,125</u>
<b>For the year ended 31 March 2004</b>						
Turnover						
Segment turnover	<u>119,892</u>	<u>51,512</u>	<u>3,646</u>	<u>–</u>	<u>–</u>	<u>175,050</u>
Result						
Segment result	22,106	86	7,677	–	(21)	29,848
Unallocated corporate expenses						(17,171)
Profit from operations						12,677
Finance costs						(4,557)
Share of results of associates	–	–	–	–	9,214	9,214
Realisation of negative goodwill in respect of acquisition of an associate	–	–	–	–	13,488	13,488
Profit before taxation						30,822
Taxation						2,752
Profit before minority interests						33,574
Minority interests						10,818
Net profit for the year						<u>44,392</u>
Other information						
Additions of property, plant and equipment	5,551	–	–	–	1,159	6,710
Depreciation and amortisation of property, plant and equipment	(5,178)	–	(127)	–	(321)	(5,626)
Gain (loss) on disposal of property, plant and equipment	518	–	(30)	–	(1,140)	(652)
Revaluation surplus recognised in respect of investment properties	–	–	6,228	–	–	6,228



## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 4. SEGMENT INFORMATION (continued)

#### Business Segments (continued)

	Trade and manufacture of cement <i>HK\$'000</i>	Trade of goods <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Investments holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>As at 31 March 2004</b>						
Balance sheet						
Assets						
Segment assets	<u>110,180</u>	<u>3,920</u>	<u>199,799</u>	<u>–</u>	<u>219,774</u>	<u>533,673</u>
Consolidated total assets						<u>533,673</u>
Liabilities						
Segment liabilities	<u>29,327</u>	<u>3,799</u>	<u>31,717</u>	<u>–</u>	<u>1,092</u>	<u>65,935</u>
Unallocated corporate liabilities						<u>256,224</u>
Consolidated total liabilities						<u>322,159</u>

#### Geographical Segments

The Group's operations are located in Mainland China and Hong Kong of the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	1.4.2004 to 31.12.2004 <i>HK\$'000</i>	1.4.2003 to 31.3.2004 <i>HK\$'000</i>
Mainland China	<u>81,554</u>	119,893
Hong Kong	<u>129,438</u>	55,157
	<u>210,992</u>	<u>175,050</u>

**4. SEGMENT INFORMATION** (continued)**Geographical Segments** (continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical areas in which the assets are located:

	<b>31.12.2004</b> <i>HK\$'000</i>	31.3.2004 <i>HK\$'000</i>
Carrying amount of segment assets		
Mainland China	<b>393,442</b>	507,156
Hong Kong	<b>235,064</b>	26,517
	<hr/> <b>628,506</b> <hr/>	<hr/> 533,673 <hr/>
	<b>1.4.2004</b> to <b>31.12.2004</b> <i>HK\$'000</i>	1.4.2003 to 31.3.2004 <i>HK\$'000</i>
Additions to property, plant and equipment		
Mainland China	<b>20,125</b>	5,551
Hong Kong	<b>164</b>	1,159
	<hr/> <b>20,289</b> <hr/>	<hr/> 6,710 <hr/>

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 5 (LOSS) PROFIT FROM OPERATIONS

	<b>THE GROUP</b>	
	<b>1.4.2004 to 31.12.2004 HK\$'000</b>	1.4.2003 to 31.3.2004 HK\$'000
The (loss) profit from operations is arrived at after charging:		
Auditors' remuneration		
Current period/year provision	<b>1,020</b>	821
Prior year underprovision	<b>54</b>	418
	<hr/> <b>1,074</b> <hr/>	<hr/> 1,239 <hr/>
Depreciation of property, plant and equipment	<b>4,533</b>	5,626
Loss on disposal of property, plant and equipment	<b>2,366</b>	652
Minimum lease payments in respect of rented premises	<b>1,995</b>	1,572
Allowance of amount due from an associate	–	166
Contributions to retirement benefits schemes	<b>1,315</b>	1,630
Other staff costs (including directors' emoluments)	<b>10,737</b>	18,354
after crediting:		
Gross rental income from investment properties	<b>684</b>	3,646
Less: Outgoings	–	(3,454)
	<hr/> <b>684</b> <hr/>	<hr/> 192 <hr/>
Interest income excluding of interest income on the temporary investment of specific borrowings of approximately HK\$243,000 (1.4.2003 to 31.3.2004: nil) which has been capitalised in properties under development	<b>22</b>	39
	<hr/> <b>22</b> <hr/>	<hr/> 39 <hr/>



## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

#### (a) Directors' emoluments (continued)

Emoluments of the directors were within the following bands:

	<b>THE GROUP</b>	
	<b>1.4.2004 to 31.12.2004 Number of directors</b>	1.4.2003 to 31.3.2004 Number of directors
HK\$nil to HK\$1,000,000	<b>9</b>	9
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
	<b>10</b>	10

#### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two directors (1.4.2003 to 31.3.2004: one) of the Company whose emoluments are included in note 6(a) above. The emoluments of the remaining three (1.4.2003 to 31.3.2004: four) individuals were as follows:

	<b>THE GROUP</b>	
	<b>1.4.2004 to 31.12.2004 HK\$'000</b>	1.4.2003 to 31.3.2004 HK\$'000
Salaries and other benefits	<b>2,646</b>	2,716
Contributions to retirement benefits schemes	<b>55</b>	136
	<b>2,701</b>	2,852

**6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (continued)**(b) Five highest paid individuals** (continued)

Emoluments of the highest paid individuals were within the following bands:

	<b>THE GROUP</b>	
	<b>1.4.2004 to 31.12.2004 Number of employees</b>	1.4.2003 to 31.3.2004 Number of employees
HK\$nil to HK\$1,000,000	<b>3</b>	<b>4</b>

**7. FINANCE COSTS**

	<b>THE GROUP</b>	
	<b>1.4.2004 to 31.12.2004 HK\$'000</b>	1.4.2003 to 31.3.2004 HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	<b>5,300</b>	2,621
Other loans	–	1,936
Total borrowing cost	<b>5,300</b>	4,557
Less: Amount capitalised in the cost of properties under development	<b>(3,513)</b>	–
	<b>1,787</b>	4,557

Capitalisation rate of borrowing costs are calculated at 5.49% to expenditure on qualifying assets.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 8. TAXATION

Hong Kong Profits Tax is provided at 17.5% (1.4.2003 to 31.3.2004: 17.5%) on the estimated assessable profits for the period. PRC Enterprise Income Tax is provided at 24% (1.4.2003 to 31.3.2004: 24%) on the estimated assessable profits for the period.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

During the period from 1 April 2004 to 31 December 2004, no provision for PRC Enterprise Income Tax has been made as no assessable profits were made by the PRC subsidiaries. In prior year, 50% reduction on the PRC Enterprise Income Tax was obtained.

	<b>THE GROUP</b>	
	<b>1.4.2004 to 31.12.2004 HK\$'000</b>	1.4.2003 to 31.3.2004 HK\$'000
The taxation charge (credit) comprises:		
Current tax:		
Hong Kong	<b>6</b>	570
PRC	–	2,218
	<hr/> <b>6</b> <hr/>	<hr/> 2,788 <hr/>
(Over)underprovision in prior year:		
Hong Kong	<b>(570)</b>	430
	<hr/> <b>(564)</b> <hr/>	<hr/> 3,218 <hr/>
Deferred taxation ( <i>note 26</i> )	<b>(3,641)</b>	(5,970)
Taxation credit for the year	<b>(4,205)</b>	(2,752)
	<hr/> <hr/> <b>(4,205)</b> <hr/> <hr/>	<hr/> <hr/> 2,752 <hr/> <hr/>

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 8. TAXATION (continued)

A statement of reconciliation of taxation is as follows:

	<b>1.4.2004 to 31.12.2004 HK\$'000</b>	1.4.2003 to 31.3.2004 HK\$'000
Profit before taxation	<b><u>94,021</u></b>	<u>30,822</u>
Tax at the PRC Enterprise Income Tax rate of 24% (1.4.2003 to 31.3.2004: 24%)	<b>22,565</b>	7,397
Tax effect of share of results of associates	<b>63</b>	(2,211)
Tax effect of expenses not deductible for tax purposes	<b>4,986</b>	3,903
Tax effect of income not taxable for tax purposes	<b>(39,815)</b>	(6,202)
Tax effect of tax losses not recognised	<b>8,580</b>	3,394
Tax effect on utilisation of tax losses previously not recognised	<b>(9)</b>	(808)
Effect of tax exemption granted to the PRC subsidiaries	<b>–</b>	(2,217)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(3)</b>	(6,431)
(Over)underprovision in prior year	<b>(570)</b>	430
Others	<b>(2)</b>	(7)
Taxation credit for the period/year	<b><u>(4,205)</u></b>	<u>(2,752)</u>



## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	THE GROUP	
	1.4.2004 to 31.12.2004 HK\$'000	1.4.2003 to 31.3.2004 HK\$'000
Net profit for the period/year and earnings for the purposes of basic and diluted earnings per share	<u>103,799</u>	<u>44,392</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,687,104,968</u>	1,685,896,751
Effect of dilutive potential ordinary shares in respect of share options	<u>1,976,336</u>	<u>312,734</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,689,081,304</u>	<u>1,686,209,485</u>

### 10. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. All employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were required to switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute 29% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

For the period from 1 April 2004 to 31 December 2004, contributions totalling of approximately HK\$1,315,000 (1.4.2003 to 31.3.2004: HK\$1,630,000) were paid by the Group.

## 11. PROPERTY, PLANT AND EQUIPMENT

## THE GROUP

	Land use rights HK\$'000	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
At 1 April 2004	2,058	80,418	81,431	15,530	7,455	2,944	189,836
Additions	–	2,747	42	211	–	17,289	20,289
Acquired on acquisition of subsidiaries	–	–	–	60	304	–	364
Transfer	–	–	160	–	–	(160)	–
Disposals	–	(1,072)	(3,113)	(688)	(1,865)	–	(6,738)
Disposal of subsidiaries	–	(3,937)	–	(1,810)	(1,592)	–	(7,339)
At 31 December 2004	<u>2,058</u>	<u>78,156</u>	<u>78,520</u>	<u>13,303</u>	<u>4,302</u>	<u>20,073</u>	<u>196,412</u>
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 April 2004	2,058	31,050	60,474	13,711	6,222	–	113,515
Provided for the period	–	1,906	2,050	306	279	–	4,541
Eliminated on disposals	–	(483)	(1,729)	(607)	(1,518)	–	(4,337)
Impairment loss recognised in income statements	–	6,273	3,192	–	8	–	9,473
Disposal of subsidiaries	–	(518)	–	(1,692)	(1,592)	–	(3,802)
At 31 December 2004	<u>2,058</u>	<u>38,228</u>	<u>63,987</u>	<u>11,718</u>	<u>3,399</u>	<u>–</u>	<u>119,390</u>
NET BOOK VALUES							
At 31 December 2004	<u>–</u>	<u>39,928</u>	<u>14,533</u>	<u>1,585</u>	<u>903</u>	<u>20,073</u>	<u>77,022</u>
At 31 March 2004	<u>–</u>	<u>49,368</u>	<u>20,957</u>	<u>1,819</u>	<u>1,233</u>	<u>2,944</u>	<u>76,321</u>

The directors of the Company have met the county government of Wen Ting County, Suzhou, the PRC and obtained written notice for the usage right of a piece of land located at Wen Ting County. However, the State Land Bureau has yet to give its approval to the Group's title to this piece of land, held through a 71% subsidiary (with the remaining 29% held by a PRC joint venture partner), on which buildings with net book value of HK\$39,928,000 (31.3.2004: HK\$45,949,000) (cost of HK\$78,156,000 (31.3.2004: HK\$70,577,000), less accumulated depreciation of HK\$38,228,000 (31.3.2004: HK\$24,628,000)) have been erected. It is the responsibility of the PRC joint venture partner to ensure that the appropriate land use right certificate is obtained and they have confirmed to the Group that they are in the process of obtaining the land use right certificate from the State Land Bureau.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 11. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain plant and machinery with an aggregate net book value of HK\$14,115,000 (1.4.2003 to 31.3.2004: HK\$20,957,000) have been pledged as securities for the Group's bank loans.

During the period, the directors conducted a review of the Group's certain manufacturing assets and determined that a number of those assets were fully impaired, due to physical damage and technical obsolescence. Accordingly, an impairment loss of approximately HK\$6,273,000, HK\$3,192,000 and HK\$8,000 respectively have been recognised in respect of buildings, plant and machinery and motor vehicles.

#### THE COMPANY

	<b>Furniture and equipment</b> <i>HK\$'000</i>
<b>COST</b>	
At 1 April 2004 and 31 December 2004	353
<b>ACCUMULATED DEPRECIATION</b>	
At 1 April 2004	246
Provided for the period	20
At 31 December 2004	266
<b>NET BOOK VALUE</b>	
At 31 December 2004	87
At 31 March 2004	107

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 12. INVESTMENT PROPERTIES

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
At beginning of period/year	194,796	146,568
Acquisition of a subsidiary	–	105,000
Disposal of subsidiaries	(103,664)	–
Revaluation (deficit) surplus	(6,262)	6,228
Disposals	–	(63,000)
	<u>84,870</u>	<u>194,796</u>
At end of period/year	<b>84,870</b>	<b>194,796</b>
Analysed by lease term and geographical location:		
Medium term leasehold properties situated outside Hong Kong	84,870	91,132
Long term leasehold properties situated outside Hong Kong	–	103,664
	<u>84,870</u>	<u>194,796</u>

The investment properties were revaluated at their open market value at balance sheet date by S.H. Ng & Co., Ltd., an independent professional property valuer. The valuation gave rise to a revaluation deficit of approximately HK\$6,262,000 (1.4.2003 to 31.3.2004: surplus of HK\$6,228,000) which has been charged/credited to the income statement during the period/year.

### 13. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
At beginning of period/year	–	41,469
Acquisition of subsidiaries	128,173	–
Additions	41,962	–
	<u>170,135</u>	<u>41,469</u>
Less: Impairment loss	–	(41,469)
	<u>170,135</u>	<u>–</u>

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 13. PROPERTIES UNDER DEVELOPMENT (continued)

The properties under development are due for completion:

	THE GROUP	
	1.4.2004 to 31.12.2004 HK\$'000	1.4.2003 to 31.3.2004 HK\$'000
Within one year	<u>170,135</u>	<u>–</u>

The cost of properties under development situated in the PRC are held under the following lease terms:

	THE GROUP	
	1.4.2004 to 31.12.2004 HK\$'000	1.4.2003 to 31.3.2004 HK\$'000
Under long leases	<u>170,135</u>	<u>41,469</u>

During the period, net interest capitalised amounting to HK\$3,270,000 (1.4.2003 to 31.3.2004: nil). Properties under development amounting to HK\$33,929,000 (1.4.2003 to 31.3.2004: HK\$nil) have been pledged as securities for the Group's bank loans.

At 31 December, 2004, properties under development related to a site for residential development project comprising villas nos. 9 and 11 at Baiwanzhuang Dajie, Xicheng District, Beijing, the PRC with a site area of about 7,200 sq.m.

At 31 March 2004, properties under development related to the Waterfront Project in Panyu, the PRC (the "Waterfront Project"). The Waterfront Project have been suspended since late 2000. Due to the difficulties in obtaining further financing and the possession orders charged by the creditors against the land use right of Waterfront Project in respect of certain bank loans and other payables, the directors decided to suspend the development of the project and an impairment loss was recognised for all costs incurred up to 31 March 2002.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Unlisted shares, at cost	1,001	1,001
Less: Impairment loss	(1,000)	(1,000)
	<u>1</u>	<u>1</u>
Amounts due from subsidiaries	1,830,705	1,786,508
Less: Allowance for doubtful receivables	(1,573,457)	(1,615,519)
	<u>257,248</u>	<u>170,989</u>
	<u><b>257,249</b></u>	<u><b>170,990</b></u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms for repayment. In the opinion of the directors, the Company will not demand repayment within the next twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration	Total paid-up and issued ordinary share/ registered capital	Equity interest owned by the Group		Principal activities
			31.12.2004 %	31.3.2004 %	
<i>Directly held:</i>					
Galactic Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	100	Investment holding
Merry World Associates Limited	British Virgin Islands (the "BVI")	1 ordinary share of US\$1 each	100	100	Property investment

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration	Total paid-up and issued ordinary share/ registered capital	Equity interest owned by the Group		Principal activities
			31.12.2004 %	31.3.2004 %	
<i>Indirectly held:</i>					
Boxhill Limited	BVI	1 ordinary share of US\$1 each	100	100	Investment holding
Chengtong Hua Da Trading Limited	Hong Kong	100 ordinary shares of HK\$1 each	51	51	Trading
Come Ward Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100	100	Trading
Evolve Limited	Hong Kong	500 ordinary shares of HK\$10 each	100	100	Property investment
Chengtong Trading (International) Limited	Hong Kong	429 ordinary shares of HK\$1 each	100	100	Trading
Price Sales Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100	100	Investment holding
Sea-Land Mining Limited	Hong Kong	1,000,000 ordinary shares of HK\$10 each	100	100	Investment holding
蘇州南達水泥有限公司* Suzhou Nanda Cement Company Limited	PRC	RMB101,262,000	71.03	71.03	Trade and manufacture of cement
中實投資有限責任公司* Zhongshi Investment Company Limited	PRC	RMB80,000,000	70	Nil	Properties development

\* The subsidiary was established in the PRC as a sino-foreign equity joint venture enterprise.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 14. INTERESTS IN SUBSIDIARIES (continued)

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

None of the subsidiaries had any debt securities subsisting at 31 December 2004 or at any time during the period/year.

### 15. INTERESTS IN ASSOCIATES

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Share of net assets	<b>264</b>	525
Amounts due from associates	<b>175,918</b>	198,306
Less: Allowance for doubtful receivables	<b>(1,086)</b>	(1,086)
	<b>174,832</b>	197,220
	<b>175,096</b>	197,745

The amounts due from associates are unsecured, interest-free and have no fixed terms for repayment. In the opinion of the directors, the Group will not demand repayment within the next twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

Particulars of the Group's associates at the balance sheet date are as follows:

Name of company	Class of shares held	Place of incorporation	Equity interest owned by the Group		Principal activity
			31.12.2004 %	31.3.2004 %	
Goodwill (Overseas) Limited ("Goodwill")	Ordinary	BVI	<b>32</b>	32	Investment holding
Success Project Investments Ltd. ("Success Project")	Ordinary	BVI	<b>35</b>	35	Investment holding



## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 15. INTERESTS IN ASSOCIATES (continued)

On 28 January 2002, the Group disposed of its 35% interest in Success Project which holds a 52% interest in 蘇州金南房地產開發有限公司 ("Suzhou Jin Nan") that owns Shilu International Shopping Centre in Suzhou, the PRC, for HK\$15,000,000. The Group had an option to repurchase the investment before the end of 2002 (subsequently extended to 17 April 2003) at HK\$15,000,000, plus interest at 10% per annum thereon. On 17 April 2003, the Group exercised the option to repurchase the investment at a consideration of HK\$16,866,000 that generated a negative goodwill of HK\$13,488,000 in result. On 12 February 2004, Success Project disposed of its entire interest in Suzhou Jin Nan and the respective shareholders' loan to an independent third party at a consideration of approximately HK\$101,780,000. Since the major assets of Success Project were disposed of during the year ended 31 March 2004, the negative goodwill arising on the acquisition of Success Project was fully released to the income statement during that year.

In the Company's balance sheet, the amount due from an associate of the Group of approximately HK\$517,000 (31.3.2004: HK\$517,000) is interest-free and has no fixed terms of repayment. In the opinion of the directors, the Company will not demand for the repayment within the next twelve months from the balance sheet date. Accordingly, the amount is shown as non-current.

### 16. INVENTORIES

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Raw materials	6,040	9,763
Work in progress	683	2,435
Finished goods	5,322	2,227
	<hr/>	<hr/>
	12,045	14,425
Less: Allowance made	(2,931)	(2,614)
	<hr/>	<hr/>
	9,114	11,811
	<hr/> <hr/>	<hr/> <hr/>

As at the balance sheet date, the inventories were carried at cost.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 17. TRADE AND OTHER RECEIVABLES

	Notes	THE GROUP	
		31.12.2004 HK\$'000	31.3.2004 HK\$'000
Trade receivables	(a)	7,713	8,280
Prepayments and deposits	(b)	1,992	3,102
Other receivables	(c)	9,286	1,695
		<u>18,991</u>	<u>13,077</u>

#### (a) Trade receivables

The Group allows an average credit period of 30 days to its trade customers on open account credit terms. The ageing analysis of the trade receivables at the balance sheet date is as follows:

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Current	1,443	2,187
One to three months	796	328
Over three months	5,474	5,765
	<u>7,713</u>	<u>8,280</u>

#### (b) Prepayments and deposits

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Prepayments and deposits	238,523	247,257
Less: Allowance made	(236,531)	(244,155)
	<u>1,992</u>	<u>3,102</u>

Included in prepayments and deposits is a deposit of HK\$200,000,000 (31.3.2004: HK\$200,000,000) paid by the Company to Sharp Class International Limited ("Sharp Class"), a company incorporated in the BVI, as collection agent, pursuant to the terms of a memorandum of understanding dated 28 February 2000 (the "MOU") made between the Company and China National Container Corporation ("CNCC"), an independent third party, incorporated in the PRC. As a result of the payment of this amount ("the earnest money"), the Company had the exclusive right to enter into negotiation with CNCC for the acquisition of a substantial stake in a logistics and distribution network joint venture in the PRC (the "CNCC Acquisition").

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 17. TRADE AND OTHER RECEIVABLES (continued)

#### (b) Prepayments and deposits (continued)

The completion of the CNCC Acquisition pursuant to the terms of an agreement dated 19 February 2001 was conditional upon fulfillment of certain conditions which include obtaining the approval from the relevant authorities and finalising of certain legal procedures in the PRC. The completion date of the acquisition was originally scheduled to take place on 2 May 2001 and it was extended six times until 31 March 2002. Since the conditions were not fulfilled by CNCC by 31 March 2002, the directors terminated the transaction on 2 April 2002 and demanded refund of the earnest money and the related interest at 7% per annum.

Also included in prepayments and deposits are interest receivable on the earnest money of HK\$14,000,000 (31.3.2004: HK\$14,000,000), a temporary advance of HK\$13,000,000 (31.3.2004: HK\$13,000,000) made to Epoch Development Holdings Limited (a related company of CNCC) and deferred expenses of HK\$5,657,000 (31.3.2004: HK\$5,657,000).

The Company has on 1 August 2002 received a letter from CNCC stating that it has not received the earnest money of HK\$200,000,000 paid by the Group in March 2000 nor has CNCC authorised any person to receive such sum from the Group. After careful consideration, the directors decided to make a full provision of HK\$232,657,000, including the earnest money of HK\$200,000,000 paid to Sharp Class pursuant to the MOU, an advance of HK\$13,000,000 to Epoch Development Holdings Limited, interest income accrued on the earnest money of HK\$14,000,000 for the year ended 31 March 2001 and deferred expenses of HK\$5,657,000.

The directors have instructed the legal advisers to the Group to take legal actions to recover the earnest money of HK\$200,000,000 together with the interest accrued thereon and the advance of HK\$13,000,000 to Epoch Development Holdings Limited. Up to the date of this financial statements, the legal proceedings are still in progress.

#### (c) Other receivables

	THE GROUP	
	31.12.2004	31.3.2004
	HK\$'000	HK\$'000
Other receivables	449,300	414,667
Less: Allowance made	(440,014)	(412,972)
	<u>9,286</u>	<u>1,695</u>

Included in other receivables is a total sum of HK\$358,445,000 (31.3.2004: HK\$358,445,000) paid to Sharp Class (the "Receivable") out of the settlement in July 2001 of other receivables carried forward from 31 March 2001. In view of the lack of satisfactory documentation and adequate evidence to substantiate the nature, existence, substance and recoverability of the Receivable, the directors decided to make a full provision in respect of the Receivable in the financial statements during the year ended 31 March 2002. On 7 September 2002, the Group commenced legal actions against Sharp Class and Mr. Lo Chu Kong, the former chief executive officer and one of the authorised bank signatories of China-eND.com Limited, a 70% subsidiary of the Company, which made the payments totalling HK\$308,445,000 to Sharp Class. On 4 November 2002, the Group also commenced legal actions against Sharp Class, Mr. Yuen Wai (the former Chairman of the Company) and Mr. Chung Ho (the former executive director of the Company) for the recovery of HK\$50,000,000 advanced to Sharp Class. Up to the date of this financial statements, the legal proceedings are still in progress.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 18. AMOUNT DUE FROM/TO A MINORITY INTEREST

The amount due from/to a minority interest is unsecured, interest-free and has no fixed terms for repayment.

### 19. AMOUNTS DUE FROM RELATED COMPANIES

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
<b>Name of related companies</b>		
中國物資開發投資總公司	4,621	–
Nardu Company Limited	27	–
Panyu Lucky Rich Real-Estates Development Limited	372	–
	<b>5,020</b>	<b>–</b>

The amounts are unsecured, interest-free and repayable on demand. 中國物資開發投資總公司 is a subsidiary of China Chengtong Holdings Company, the ultimate controlling shareholder of the Company. Nardu Company Limited and Panyu Lucky Rich Real-Estates Development Limited are subsidiaries of China Chengtong Hong Kong Company Limited, a substantial shareholder of the Company.

### 20. TRADE AND OTHER PAYABLES

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Trade payables	52,462	25,465
Deposits received, other payables and accruals	66,488	70,239
	<b>118,950</b>	<b>95,704</b>

The ageing analysis of the trade payables at the balance sheet date is as follows:

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Current	6,056	4,044
One to three months	14,377	1,422
Over three months	32,029	19,999
	<b>52,462</b>	<b>25,465</b>

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 21. PROVISION FOR A LEGAL CLAIM

#### THE GROUP

HK\$'000

Provide for the period and balance as at 31 December 2004

**32,792**

As at the balance sheet date, the Group had an outstanding litigation in relation to a petition filed against a wholly-owned subsidiary of the Company, seeking an order, among other matters, for the transfer of certain land and property in the PRC owned by the wholly owned subsidiary with carrying value of approximately HK\$43,722,000 as at 31 December 2004, in favour of the plaintiff and payment of the amount and related court expenses claimed.

Having obtained legal counsel's advice, the directors are of the opinion that a provision of HK\$32,792,000 is considered adequate.

### 22. LOAN FROM AN INTERMEDIATE CONTROLLING SHAREHOLDER

The loan from an intermediate controlling shareholder is unsecured and interest-free. The repayment date of the loan was originally scheduled on 9 January 2004 and it was extended to 9 January 2005.

### 23. OTHER LOANS

#### THE GROUP

**31.12.2004**      31.3.2004  
**HK\$'000**      **HK\$'000**

Other loans are repayable as follows:

Within one year

**7,196**      7,827

In the second to fifth years inclusive

–      63,236

Current portion of other loans

**7,196**      71,063

**(7,196)**      (7,827)

–      63,236

The other loans are unsecured and interest-free, except for a loan of HK\$3,600,000 (31.3.2004: HK\$3,600,000) which is interest bearing at 0.05% per day on a compound basis.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 24. BANK LOANS, SECURED

	<b>THE GROUP</b>	
	<b>31.12.2004</b> <i>HK\$'000</i>	31.3.2004 <i>HK\$'000</i>
Within one year	<b>17,304</b>	20,840
After one year but within two years	<b>94,300</b>	–
	<b>111,604</b>	20,840
Less: Amount due within one year included in the current liabilities	<b>(17,304)</b>	(20,840)
Amount due after one year	<b>94,300</b>	–

For details of the securities to the bank loans, please refer to notes 11 and 13 to the financial statements.

### 25. LOANS FROM MINORITY INTERESTS

Loans from minority interests are unsecured, interest-free and are not repayable in the next twelve months.

### 26. DEFERRED TAXATION

#### THE GROUP

The following are the major deferred tax liabilities accrued and movement thereon during both years:

	<b>Revaluation of properties</b>	
	<b>31.12.2004</b> <i>HK\$'000</i>	31.3.2004 <i>HK\$'000</i>
At beginning of period/year	<b>10,240</b>	–
Acquisition of a subsidiary	–	16,210
Credit to income for the period/year	<b>(3,641)</b>	(5,970)
At end of period/year	<b>6,599</b>	10,240

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 26. DEFERRED TAXATION (continued)

The Group has deductible temporary differences not recognised in the financial statements are as follows:

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Accelerated depreciation allowances	–	11
Tax losses	(196,507)	(160,796)
Revaluation deficit of investment properties	–	(275,868)
Impairment losses and allowance made on assets	(54,338)	(52,875)
	<b>(250,845)</b>	<b>(489,528)</b>

No deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised. The tax losses may be carried forward indefinitely.

#### THE COMPANY

At 31 December 2004, the Company has unused tax losses of HK\$61,575,000 (31.3.2004: HK\$54,789,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profits streams. The tax losses may be carried forward indefinitely.

### 27. SHARE CAPITAL

	31.12.2004		31.3.2004	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
At 1 April 2003, 31 March 2004 and 31 December 2004	<b>5,000,000</b>	<b>500,000</b>	<b>5,000,000</b>	<b>500,000</b>
Issued and fully paid:				
At beginning of period/year	<b>1,687,105</b>	<b>168,710</b>	1,684,405	168,440
Exercise of options	–	–	2,700	270
At end of the period/year	<b>1,687,105</b>	<b>168,710</b>	<b>1,687,105</b>	<b>168,710</b>

On 8 April 2003, 15 September 2003, 3 October 2003, 31 October 2003 and 6 January 2004, the subscription rights attaching to 550,000, 700,000, 200,000, 1,000,000 and 250,000 share options, respectively, were exercised at the subscription price of HK\$0.1491 per share, resulting in the issue of 2,700,000 shares of HK\$0.1 each for approximately HK\$402,570.

All the shares issued by the Company during the year ended 31 March 2004 rank pari passu with the existing shares in issue in all respects.

## 28. SHARE OPTIONS SCHEMES

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

The total consideration received during the period for taking up the options granted is amounted to HK\$23 (1.4.2003 to 31.3.2004: HK\$20).

### (a) Old scheme

The Company adopted a share option scheme at the Annual General Meeting held on 22 September 1998 (the "Old Scheme") under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares issued upon exercise of options granted under the Old Scheme is not to exceed 10% of the issued share capital of the Company from time to time (excluding the shares issued upon exercise of options granted pursuant to the Old Scheme). On 24 June 2003, the shareholders of the Company approved the termination of the Old Scheme.

The movements in the number of options outstanding during the period which have been granted to employees of the Group under the Old Scheme were as follows:

	Exercisable period	Exercise price HK\$	Outstanding at 1.4.2003	Exercised during the year	Lapsed during the year	Outstanding at		Outstanding at 31.12.2004	Number of underlying shares
						31.3.2004 and 1.4.2004	Lapsed during the period		
Other employees	1.7.2001 to 30.6.2004	0.1491	975,000	(975,000)	-	-	-	-	-
	1.10.2001 to 30.9.2004	0.1491	1,550,000	(1,350,000)	(150,000)	50,000	(50,000)	-	-
	31.3.2002 to 30.3.2005	0.1491	575,000	(375,000)	(150,000)	50,000	(50,000)	-	-
Total			<u>3,100,000</u>	<u>(2,700,000)</u>	<u>(300,000)</u>	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>

In accordance with the provisions of the Old Scheme, share options will lapse upon the grantee ceasing to be an employee (including a director) of the Company after one month following the date of such cessation.



## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 28. SHARE OPTIONS SCHEMES (continued)

#### (b) New scheme

The Company adopted a new share option scheme at an extraordinary general meeting of the Company held on 24 June 2003 (the "New Scheme"), the Directors may, at their discretion, invite any participants to take up options to subscribe for fully paid ordinary shares ("Shares") in the Company subject to the terms and conditions stipulated therein.

Details of the New Scheme are as follows:

##### (i) Purpose

The purpose of the New Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any invested entity.

##### (ii) Participants

The Directors may, at their discretion, invite any participant including any executive director, non-executive director or employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider or any joint venture partner, business or strategic alliance partner, in each case, of the Company, any subsidiary of the Company or any invested entity, to take up options to subscribe for Shares in the Company.

##### (iii) Maximum number of shares

###### (1) 30% limit

The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and Old Scheme of the Company must not exceed 30% of the Shares in issue from time to time (the "Scheme Limit").

###### (2) 10% limit

In addition to the Scheme Limit, and subject to the following, the total number of shares which may be issued upon exercise of all options granted under the New Scheme and Old Scheme of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Scheme (excluding any options which have lapsed) (the "Scheme Mandate Limit").

The Company may, from time to time, renew the Scheme Mandate Limit by obtaining the approval of its shareholders in general meeting. The Company may also seek separate approval by its shareholders in general meeting for granting options beyond the renewed Scheme Mandate Limit provided the options in excess of such limit are granted only to participants specifically identified.

## 28. SHARE OPTIONS SCHEMES (continued)

### (b) New scheme (continued)

#### (iv) *Maximum entitlement of each participant*

Unless approved by shareholders of the Company, the total number of securities issued and to be issued upon exercise on the options granted to each participant (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the Shares in issue. Where any further grant of options to a participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

#### (v) *Price of shares*

The exercise price must be at least the higher of: (a) the nominal value of a Share at the date of grant; (b) the closing price of a Shares as stated on the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

#### (vi) *Amount payable upon acceptance of the option*

Acceptance of an offer of the grant of an option shall be by the delivery to and receipt by the Company at its registered office of the form of acceptance sent to the Participant duly completed and signed by the Participant together with a remittance of HK\$1.

#### (vii) *Time of exercise of option*

An option shall be exercisable at such time(s) or during such period(s) and subject to such terms, as the Directors may, at their discretion specify, provided that 50% of the option shall be exercisable with a period of three (3) years commencing from twelve (12) months after the date of acceptance of the offer and the balance 50% may be exercisable at any time with a period of three (3) years commencing from twenty-four (24) months after the date of acceptance of the offer.

#### (viii) *The remaining life of the New Scheme*

The life of the New Schemes is 10 years commencing on the Adoption Date and will end on 23 June 2013.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 28. SHARE OPTIONS SCHEMES (continued)

#### (b) New scheme (continued)

##### (ix) Shares available for issue under the New Scheme

As at 31 December 2004, the total number of shares available for issue under the New Scheme was approximately 113,445,000 shares which represented approximately 6.7% of the total issued share capital of the Company.

The movements in the number of options outstanding during the period/year which have been granted to the directors of the Company and employees of the Group under the New Scheme were as follows:

	Exercisable period	Exercise price HK\$	Granted during the year and outstanding at 31.3.2004	Granted during the period	Lapsed during the period	Outstanding at 31.12.2004	Number of underlying shares
Directors	9.3.2005 to 8.3.2009	0.364	8,400,000	-	-	8,400,000	8,400,000
	29.9.2005 to 28.9.2008	0.245	-	8,000,000	-	8,000,000	8,000,000
Other employees	9.3.2005 to 8.3.2009	0.364	16,750,000	-	(2,150,000)	14,600,000	14,600,000
	29.9.2005 to 28.9.2008	0.245	-	24,050,000	-	24,050,000	24,050,000
Total			<u>25,150,000</u>	<u>32,050,000</u>	<u>(2,150,000)</u>	<u>55,050,000</u>	<u>55,050,000</u>

## 29. RESERVES

Details of changes in reserves of the Group are set out in the consolidated statements of changes in equity on page 23.

### THE COMPANY

	<b>Share premium</b>	<b>Capital redemption reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2003	939,140	402	(1,013,512)	(73,970)
Issue of new shares upon exercise of options	133	–	–	133
Net loss for the year	–	–	(11,710)	(11,710)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004 and 1 April 2004	939,273	402	(1,025,222)	(85,547)
Net profit for the period	–	–	86,914	86,914
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>939,273</u>	<u>402</u>	<u>(938,308)</u>	<u>1,367</u>

## 30. PURCHASE AND DISPOSAL OF SUBSIDIARIES

On 1 April 2004, the Company announced that it had entered into a share sale agreement (the "Share Sale Agreement") with China Chengtong Hong Kong Company Limited ("CCHK"), a substantial shareholder of the Company, pursuant to which the Company agreed to dispose of the Company's entire equity interests in Ocean-Land Management Limited and Tat Yeung Investments Limited (collectively as the "Disposal Companies"), for a consideration of HK\$72,836,000.

Upon completion of the Share Sale Agreement, the Company ceased to have any interest in the Disposal Companies and both of them ceased to be the subsidiaries of the Company.

Part of the consideration for the disposal, HK\$52,830,000, was satisfied by a transfer of the entire equity of Talent Dragon Limited ("Beijing Holdco"), a wholly-owned subsidiary of CCHK incorporated in the British Virgin Island to the Company, and the balance of the consideration, HK\$20,006,000, was paid in cash.

As the counterparty to the Share Sale Agreement is CCHK, an intermediate controlling shareholder of the Company, the Share Sale Agreement therefore constituted a connected transaction of the Company under the Listing Rules. The Share Sale Agreement was approved by the independent shareholders at an Extraordinary General Meeting held on 26 July 2004. The details of such transaction are set out in the Company's circular to the shareholders dated 9 July 2004.

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 30. PURCHASE AND DISPOSAL OF SUBSIDIARIES (continued)

#### (a) Purchase of subsidiaries

	<b>1.4.2004 to 31.12.2004 HK\$'000</b>	1.4.2003 to 31.3.2004 HK\$'000
Net assets acquired:		
Property, plant and equipment	<b>364</b>	–
Investment properties	–	105,000
Property under development	<b>128,173</b>	–
Trade and other receivables	<b>2,955</b>	–
Amounts due from related companies	<b>9,000</b>	–
Bank balances and cash	<b>51,829</b>	–
Trade and other payables	<b>(22,550)</b>	(9,330)
Bank loans	<b>(66,010)</b>	–
Loan payable	<b>(28,290)</b>	–
Deferred tax liabilities	–	(16,210)
Minority interests	<b>(22,641)</b>	–
	<hr/> <b>52,830</b> <hr/>	<hr/> 79,460 <hr/>
Net assets		
Satisfied by:		
Part of consideration on disposal of Disposal Companies	<b>52,830</b>	–
Transfer of intangible assets ( <i>note</i> )	–	79,460
	<hr/> <b>52,830</b> <hr/>	<hr/> 79,460 <hr/>

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 30. PURCHASE AND DISPOSAL OF SUBSIDIARIES (continued)

#### (b) Disposal of subsidiaries

	<b>1.4.2004 to 31.12.2004 HK\$'000</b>	1.4.2003 to 31.3.2004 HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	3,537	–
Investment properties	103,664	–
Trade and other receivables	494	–
Bank balances and cash	5	–
Trade and other payables	(31,667)	–
Taxable payable	(3,371)	–
Loan from minority interests	(96,829)	–
Bank loans	(2,358)	–
Other loans	(63,628)	–
	<u>(90,153)</u>	–
Gain on disposal	162,989	–
	<u>72,836</u>	–
Total consideration	<u><u>72,836</u></u>	–
Satisfied by:		
Cash	20,006	–
Acquisition of Beijing Holdco	52,830	–
	<u>72,836</u>	–
Net cash inflow arising on purchase and disposal of subsidiaries:		
Cash received from disposal of subsidiaries	20,006	–
Cash and bank balance acquired from Beijing Holdco	51,829	–
Cash and bank balances of Disposal Companies disposed of	(5)	–
	<u>71,830</u>	–

## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 30. PURCHASE AND DISPOSAL OF SUBSIDIARIES (continued)

#### (b) Disposal of subsidiaries (continued)

*Note:* In 1998, the Group entered into an agreement with Trade Sense International Limited, a company incorporated in the BVI with limited liability, a wholly-owned subsidiary of China Huatong Distribution & Industry Development Corp. ("China Huatong"), a state-owned enterprise incorporated in Beijing, the PRC under which the Group acquired a 75% interest in the issued share capital of Galaxy Gain Limited ("Galaxy"). Galaxy's wholly-owned subsidiary, Ocean-Land Heat Supply Limited ("Ocean-Land Heat"), was appointed under an agreement for the provision of technical services relating to the supply, installation and management of heating systems to Huatong Heat Energy Technique Company Limited ("Huatong Heat") in the Mainland China on an exclusive basis ("Heat Supply Project"). Huatong Heat was to pay Ocean-Land Heat an annual fee, calculated in accordance with the total areas of heating systems to be installed by Huatong Heat plus a 55% share of its net profit after tax, for a minimum period of 20 years. The principal asset acquired by the Group was effectively an intangible asset which represents the fair value of future distributions. The consideration for the acquisition was capitalised and amortised over the minimum useful life of the asset of 20 years.

However, China Huatong had defaulted payments subsequently. On 8 April 2003, the Company announced that it had entered into a settlement agreement (the "Settlement Agreement") with China Huatong and its subsidiaries (collectively referred as the "Huatong Group") pursuant to which, among other matters, the Company agreed, subject to the satisfaction of certain conditions, to reduce the amount claimed against Huatong Group by HK\$105,000,000 under disputed claims, in consideration of China Huatong agreeing to (i) release and procure Huatong Heat Technique Company Limited, a wholly-owned subsidiary of China Huatong Heat Technique Company Limited, a 75% subsidiary of the Company, from any claims which they may have under a heat supply project; and (ii) procure Huatong Group Holdings Limited ("Hong Kong Huatong"), a wholly owned subsidiary of China Huatong, and assign the shareholder's loan due from Merry World to the Company at a consideration which was determined after arm's length negotiation, free from all encumbrances. The Settlement Agreement was approved by the shareholders of the Company in an Extraordinary General Meeting held on 24 June 2003.

Hong Kong Huatong was the sole beneficial shareholder of Merry World and the sole beneficial owner of the entire unsecured and interest-free shareholder's loan due from Merry World (the "Merry World Debt") which amounted to HK\$93,623,000 as at 28 February 2003. The only asset of Merry World is investment properties in Guangzhou which were revalued at their open market value at 20 March 2003 amounted to HK\$105,000,000 by S.H. Ng & Co., Ltd., an independent property valuer.

The net effect of the acquisition of Merry World amounted to a reversal of impairment loss recognised in respect of intangible assets of HK\$79,460,000 which was credited to the income statement for the year ended 31 March 2003. This amount represented the aggregate of the net liabilities of Merry World as at 28 February 2003 in amount of HK\$14,163,000 and the gain in net tangible assets due to assignment of the Merry World Debt as at 28 February 2003 in amount of HK\$93,623,000 to the Group. As at 31 March 2003, the Group treated the net book value of intangible assets being used to exchange for the net tangible assets (less the liabilities) from Merry World.

During the year ended 31 March 2004, a revaluation deficit of HK\$13,868,000 on investment properties and a deferred taxation credit of HK\$5,970,000 were charged/credited to the income statement in respect of a subsidiary acquired during that year.

Save as disclosed above, the subsidiaries acquired during the period/year had no significant contribution to the Group's turnover and cash flows.

### 31. CONTINGENT LIABILITIES

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Litigation	<b>324</b>	5,523

The litigation represented the maximum contingent liabilities of the Group estimated by the directors in respect of a claim lodged against subsidiaries of the Company. The directors, based on the advice of the Group's legal advisors, considered that the Group has a good defence against the alleged claim and accordingly did not make any provision for liabilities in respect of the claim as at the balance sheet date.

### 32. COMMITMENTS

#### (a) Capital commitments

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Capital commitments in respect of properties under development:		
Contracted but not provided for	<b>98,016</b>	–
Authorised but not contracted for	<b>72,018</b>	–
	<b>170,034</b>	–
Capital commitments in respect of acquisition of property, plant and equipment:		
Contracted but not provided for	<b>6,688</b>	2,256

At the balance sheet date, the Company did not have any capital commitments.



## Notes to the Financial Statements

For the period from 1 April 2004 to 31 December 2004

### 32. COMMITMENTS (continued)

#### (b) Operating lease commitments as lessee

At 31 December 2004, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Within one year	2,342	2,120
In the second to fifth years inclusive	2,103	3,631
	<u>4,445</u>	<u>5,751</u>

Leases are negotiated for an average term of three years.

At the balance sheet date, the Company had no commitments under non-cancellable operating leases in respect of rented premises.

#### (c) Operating leases commitments as lessor

At 31 December 2004, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Within one year	913	913
In the second to fifth years inclusive	913	1,597
	<u>1,826</u>	<u>2,510</u>

Leases are negotiated for an average term of three years.

At the balance sheet date, the Company had not entered into any operating lease arrangement for rental income.

### 33. RELATED PARTY TRANSACTIONS

During the period/year, the Group received consultancy fee income of HK\$515,000 (1.4.2003 to 31.3.2004: HK\$515,000) from an associate. The consultancy fee income received was determined with reference to the estimated market value for the services provided.