

# Notes to the Financial Statements

For the year ended 31 December 2004

## 1. ORGANISATION AND OPERATION

The Company was incorporated in Bermuda on 24 March 1997 under the Companies Act 1981 of Bermuda (as amended) as an exempted company limited by shares. Its shares have been listed on The Stock Exchange of Hong Kong Limited on 26 June 1997.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17(b) to the financial statements.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### (a) Basis of preparation

The financial statements have been prepared under the historical cost convention.

The Company had net current liabilities and capital deficiency of HK\$8,481,000 and HK\$28,406,000 respectively as at 31 December 2004.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder, who agreed to provide not more than HK\$10 million to finance the working capital requirements of the Company.

The accounting policies used in the preparation of the financial statements are consistent with the previous year.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRS in the financial statements for the year ended 31 December 2004.

### (b) Capital reorganisation, creditors' scheme of arrangement, open offer and whitewash waiver

In response to the summary judgment awarded against the Company and the statutory demand issued by Mr. Alfred Siu Wing Fung, an ex-chairman of the Company, the Company according to the restructuring proposal announced on 1 September 2003 and subsequently revised on 5 November 2003:

- (i) implemented a capital reorganisation of the Company ("Capital Reorganisation") which involved (a) consolidation of every 20 existing shares of HK\$0.10 each into 1 consolidated share of HK\$2.00 each on 2 December 2003 ("Consolidated Shares"); (b) a subdivision of each authorized and unissued share into 200 adjusted shares of HK\$0.01 each on 27 April 2004; and (c) cancellation of the entire amount standing to the credit of the share premium account of the Company on 27 April 2004.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

### (b) Capital reorganisation, creditors' scheme of arrangement, open offer and whitewash waiver (Continued)

- (ii) implemented a scheme of arrangement ("Creditors' Scheme") on 27 April 2004 under section 99 of the Companies Act 1981 of Bermuda and under section 166 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) between the Company and the scheme creditors (the "Scheme Creditors") which resulted in the indebtedness and liabilities owing to Scheme Creditors ("Total Indebtedness") as at the date for determination of entitlements of the Scheme Creditors (the "Scheme Record Date") being discharged in full and final settlement by way of a combination of the cash payment and the issuance of Consolidated Shares ("Creditors Shares") to the scheme creditors. Pursuant to the Creditors' Scheme, for every HK\$1 of valid claim, the Scheme Creditors received (a) cash payment of not more than HK\$0.1 and (b) not more than 1.5 Creditors Shares which were issued credited as fully paid at HK\$0.10 per Creditors Shares; and
- (iii) raised approximately HK\$23.1 million (before expenses) on 27 April 2004 by way of the issue of 512,308,705 new Consolidated Shares ("Offer Shares") on the basis of an assured allotment of five Offer Shares for the equivalent of every Consolidated Share held by shareholders other than overseas shareholders (the "Qualifying Shareholders") at the subscription price of HK\$0.045 per Offer Share (the "Open Offer"). Qualifying Shareholders will not be allotted any Offer Shares in excess of their assured allotments.

The implementation of the Capital Reorganisation, the Creditors' Scheme and the Open Offer was inter-conditional to each other.

The Capital Reorganisation and the Creditors' Scheme became effective and the Open Offer became unconditional and that all conditions precedent to the restructuring proposal have been fulfilled on 27 April 2004. After the completion of Capital Reorganisation, the Creditors' Scheme and the Open Offer, Mr. Tam Jin Rong beneficially held 410,935,123 shares, representing 51.7%, of issued shares of the Company.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the HKICPA.

### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than 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 income statement 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

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 impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (b) Associated companies

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

The Group's investments in associated companies include the Group's share of the net assets of the associated companies (plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised). The Group's share of post-acquisition results of associated companies is included in the consolidated income statement.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the consolidated income statement.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary or associated company, the related cumulative exchange difference is included in the consolidated income statement as part of the gain or loss on disposal.

### (d) Intangibles

#### (i) Goodwill

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

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight line method over its estimated useful life, but not exceeding twenty years.

#### (ii) Hotel operating licence

Hotel operating licence is stated at purchased cost less accumulated amortisation and impairment losses.

Expenditure on licence is capitalised and amortised using the straight line method over their estimated useful lives, but not exceeding 20 years. The licence is not revalued as there is no active market for the licence.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses and are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Leasehold land and buildings	over unexpired lease term
Leasehold improvements	over unexpired lease term or 5 years, whichever is shorter
Furniture, fixtures and equipment	10% to 30%
Motor vehicles	10%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

### (f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is 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.

### (g) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract as revenues and expenses respectively. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (g) Construction contracts in progress (Continued)

In determining costs incurred up to the year-end, any costs relating to future activity on a contract are excluded and shown as contract work-in-progress. The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts.

### (h) Revenue recognition

#### (i) Contract revenue

Revenue for construction contracts is recognised as set out in note 3(g).

#### (ii) Interest income

Interest income is recognised to the extent when the revenue can be measured reliably.

### (i) Impairment of assets

The carrying amounts of assets and intangible assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. 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 consolidated income statement.

### (j) Other investments

Other investments are stated at cost less impairment losses, if any. The carrying amounts of the 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 investment is reduced to its fair value. The amount of the reduction is recognised as an expense in the consolidated income statement.

### (k) Club membership

Club membership is stated at cost less any impairment in value. The carrying amount of individual club membership is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such club membership is reduced to its fair value. The amount reduced is recognised as an expense in the consolidated income statement.

Upon disposal of the membership, the difference between net disposal proceeds and the carrying amount is charged or credited to the consolidated income statement.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (l) Accounts receivable

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

### (m) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of cash flow statement, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### (n) 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. Rentals applicable to such operating leases are charged to the consolidated income statement on a straight line basis over the lease term.

### (o) Borrowing costs

All borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

### (p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (q) Related parties

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

### (r) Event after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### (s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

### (t) Employee benefits

(i) The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. The Group's subsidiaries incorporated in the People's Republic of China (the "PRC") make contributions to a state-managed defined contribution scheme for the Group's PRC staff on a monthly basis pursuant to laws and regulations in the PRC through a government agency.

The Group's contributions to the defined contribution retirement schemes are recognised as expenses in the consolidated income statement as incurred.

(ii) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.



# Notes to the Financial Statements

For the year ended 31 December 2004

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (u) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

### (v) Discontinuing operation

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 4. REVENUE AND TURNOVER

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Construction contracts in Hong Kong	–	2,026
Construction contracts in the PRC	36,781	12,036
	<u>36,781</u>	<u>14,062</u>
Other revenue		
Interest income		
– bank deposits	4	1
Profit guarantee related to acquisition of a subsidiary	–	12,000
Profit guarantee related to acquisition of associated companies	–	7,000
Waiver of accounts payable	–	1,368
Bad debts recovery	–	3,799
Others	10	23
	<u>14</u>	<u>24,191</u>
Total revenue	<u>36,795</u>	<u>38,253</u>

# Notes to the Financial Statements

For the year ended 31 December 2004

## 4. REVENUE AND TURNOVER (Continued)

Primary reporting format – business segments

	Turnover		Operating profit/(loss)	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Construction contracts in				
Hong Kong	–	2,026	(11,073)	(89,940)
Construction contracts in the PRC	36,781	12,036	1,466	(15,580)
Hotel operation	–	–	–	(16,808)
Money lending	–	–	–	(15)
	<u>36,781</u>	<u>14,062</u>	<u>(9,607)</u>	<u>(122,343)</u>
Gain arising from debts discharged under Creditors' scheme			100,306	–
Gain on deconsolidation of a subsidiary under winding up court order			50,239	–
Gain on disposal of subsidiaries			23,022	–
Impairment loss on investments in associated companies			–	(11,862)
Impairment loss on investments held for resale			–	(115,739)
Share of results of associated companies			–	2
Amortisation of premium on acquisition of associated companies			–	(7,764)
Finance costs			<u>(1,268)</u>	<u>(4,039)</u>
Profit/(loss) from operating activities before taxation			162,692	(261,745)
Taxation			<u>(841)</u>	<u>(596)</u>
Profit/(loss) attributable to shareholders			<u>161,851</u>	<u>(262,341)</u>

# Notes to the Financial Statements

For the year ended 31 December 2004

## 4. REVENUE AND TURNOVER (Continued)

### Primary reporting format – business segments

	Construction contracts		Hotel operation		Money lending		Unallocated		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	21,830	2,199	-	-	-	5	-	-	21,830	2,204
Unallocated assets	-	-	-	-	-	-	-	-	5,642	6,132
<b>Total assets</b>	<b>21,830</b>	<b>2,199</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>27,472</b>	<b>8,336</b>
Segment liabilities	9,190	80,835	-	-	-	1	-	-	9,190	80,836
Unallocated liabilities	-	-	-	-	-	-	-	-	12,636	105,061
<b>Total liabilities</b>	<b>9,190</b>	<b>80,835</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>21,826</b>	<b>185,897</b>
Capital expenditure	1,019	-	-	-	-	-	2,396	622	3,415	622
Depreciation and amortisation	62	-	-	14,551	-	-	415	705	477	15,256
Provision for doubtful debts and loans receivable	135	529	-	-	-	-	4	5,472	139	6,001
Provision for claims and litigation losses	-	63,486	-	-	-	-	-	26,446	-	89,932

### Secondary reporting format – geographical segments

	Turnover		Operating profit/(loss)		Total assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	-	2,026	161,256	(95,627)	5,642	6,456	2,396	622
PRC	36,781	12,036	1,436	(146,495)	21,830	1,880	1,019	-
Singapore	-	-	-	(19,623)	-	-	-	-
<b>Total</b>	<b>36,781</b>	<b>14,062</b>	<b>162,692</b>	<b>(261,745)</b>	<b>27,472</b>	<b>8,336</b>	<b>3,415</b>	<b>622</b>

## Notes to the Financial Statements

For the year ended 31 December 2004

### 5. OPERATING LOSS

Operating loss is stated after charging the following:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Amortisation of intangible assets ( <i>note 15</i> )		
Hotel operating licence	–	14,551
Auditors' remuneration	600	450
Depreciation	477	705
Impairment loss on intangible assets	–	2,426
Impairment loss on club membership	–	125
Property, plant and equipment written off	–	1,064
Loss on disposal of club membership	–	193
Operating leases:		
Hire of office equipment	104	208
Land and buildings	501	2,116
Provision for claims	–	17,270
Provision for litigation losses	–	72,662
Provision for doubtful debts and loans receivable	139	6,001
Warranty claims on a disposed subsidiary	–	6,000
Retirement benefit costs ( <i>note 13</i> )	74	35
Staff costs (including directors' emoluments, <i>note 14</i> )	6,035	8,279
	<u>6,035</u>	<u>8,279</u>

### 6. GAIN ARISING FROM DEBTS DISCHARGED UNDER CREDITORS' SCHEME

On 19 February 2004, the majority of the Scheme Creditors approved the Creditors' Scheme under which all indebtedness owed by the Company to the Scheme Creditors on the Scheme Record Date were released, discharged and fully settled.

The Creditors' Scheme was sanctioned by the High Court of Hong Kong and the Supreme Court of Bermuda on 16 and 19 March 2004, respectively. The total indebtedness admitted by the Scheme Administrator under the Creditors' Scheme was discharged in full and final settlement by way of a combination of the cash payment of an aggregate amount of HK\$12 million from the proceeds of the Open Offer and issuance of 180,000,000 Creditors Shares at HK\$0.10 per Creditors Share to the Scheme Creditors, resulted in a gain amounted to approximately HK\$100.3 million.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 7. GAIN ON DECONSOLIDATION OF A SUBSIDIARY UNDER WINDING-UP COURT ORDER

The gain on deconsolidation of a subsidiary under winding-up Court order represents the gain arising on deconsolidation of Prosperity Construction and Decoration Limited ("PCDL"), a subsidiary of the Company. Upon PCDL received a winding-up order issued by the High Court of Hong Kong on 9 June 2004, PCDL had a substantial capital deficiency and had an insignificant scale of operation. This resulted in a gain of HK\$50 million. Further details are disclosed in note 28(b).

## 8. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdraft	3	–
Interest on loan notes and redeemable debentures repayable within five years	604	3,647
Others	661	392
	<u>1,268</u>	<u>4,039</u>

## 9. TAXATION

(a) The amount of taxation in the consolidated income statement represents:

	Group	
	2004 HK\$'000	2003 HK\$'000
PRC income taxes	<u>841</u>	<u>596</u>

No provision for Hong Kong profits tax is required since the Group has sufficient tax losses brought forward to set off against current year's assessable profit. PRC income taxes are calculated at tax rates applicable in the PRC in which subsidiaries of the Group are assessable for tax.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 9. TAXATION (Continued)

(b) Reconciliation between taxation and tax at the applicable rate:

	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation	162,692	(261,745)
Tax at the applicable tax rate	28,694	(45,543)
Tax effect of income that is not taxable in determining taxable profit	(53,000)	(3,325)
Tax effect of expenses that are not deductible in determining taxable profit	33,586	38,534
Tax effect of unused tax losses not recognised	–	10,892
Tax effect of utilisation of tax losses not previously recognised	(8,804)	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	365	38
Taxation charge	841	596

The applicable tax rate represents the weighted average of the rates of taxation prevailing in the relevant jurisdictions in which the Group operates.

(c) Deferred tax assets are not recognised for temporary differences and tax losses carried forward due to uncertainty of realisation of the related tax benefit through the future taxable profits. The tax effect on temporary differences and unrecognised tax losses was approximately HK\$4,419,000 (2003: HK\$59,141,000) as at 31 December 2004. Certain tax losses are yet to be agreed by the Hong Kong Inland Revenue Department.

### 10. DISCONTINUED OPERATIONS

Pursuant to an underwriting agreement and a supplementary underwriting agreement, the Group was granted a right to manage and operate a hotel wholly-owned by a third party for a period of two years from 8 March 2002 to 7 March 2004. The Company after reviewing the hotel management operation has resolved on 7 November 2003 not to provide additional financial resources to support such operation. As a result, the hotel management operation was considered as a discontinued operation in previous year.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 11. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the income statement of the Company to the extent of HK\$57,596,000 (2003: Loss HK\$301,525,000).

## 12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$161,851,000 (2003: Loss HK\$262,341,000) and on the weighted average number of 574,681,847 (2003: 100,092,544) ordinary shares in issue during the year.

There was no potential dilutive shares during the year ended 31 December 2004.

## 13. RETIREMENT BENEFIT COSTS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with employees when contributed into the MPF Scheme.

The Group's subsidiaries incorporated in the PRC make monthly contributions to a state-managed defined contribution scheme for the Group's PRC staff to a government agency based on 18% of the standard salary set by the provincial government, of which 10% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff upon their retirement. The Group accounts for these contributions on accrual basis.

The total cost charged to the consolidated income statement of approximately HK\$74,000 (2003: HK\$35,000) represents contributions payable to the MPF Scheme and a state-managed defined contribution scheme by the Group.



# Notes to the Financial Statements

For the year ended 31 December 2004

## 14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

Directors' emoluments, disclosed pursuant to Section 161(1) of the Companies Ordinance and the Listing Rules of the Stock Exchange of Hong Kong Limited, were as follows:

	Group			
	Executive directors		Non-executive directors	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Fees	–	–	238	–
Other emoluments:				
Basic salaries	5,026	6,129	–	–
Retirement benefit costs	27	9	–	–
Other allowances	61	–	–	–
	<u>5,114</u>	<u>6,138</u>	<u>238</u>	<u>–</u>

Out of the total emoluments of HK\$5,114,000 to executive directors as stated above, HK\$2,048,000 are unpaid and included under accruals and other payables in the Company's balance sheet on page 20.

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

	Group	
	2004	2003
HK\$Nil – HK\$ 1,000,000	3	6
HK\$1,000,001 – HK\$1,500,000	3	3
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	–	–
	<u>7</u>	<u>10</u>

Under the Creditors' Scheme (note 2(b)(ii)), the executive directors waived emoluments of HK\$1,080,000 during the year. The waived emoluments were included in gain arising from debts discharged under Creditors' Scheme and credited to the consolidated income statement. No share option has been granted to the directors during the year.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 14. 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: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual during the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries	360	456
Retirement benefit costs	27	8
	<u>387</u>	<u>464</u>

The number of individuals whose emoluments fell within the following band is as follows:

	Group	
	2004	2003
HK\$Nil – HK\$1,000,000	<u>1</u>	<u>1</u>

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 15. INTANGIBLE ASSETS

### Group

**Hotel operating  
licence**  
HK\$'000

### Cost

At 1 January 2004	29,103
Disposal of a subsidiary	(29,103)
	<hr/>
At 31 December 2004	<u><u>–</u></u>

### Amortisation and impairment

At 1 January 2004	29,103
Disposal of a subsidiary	(29,103)
	<hr/>
At 31 December 2004	<u><u>–</u></u>

### Net book value

At 31 December 2003 and 2004	<u><u>–</u></u>
------------------------------	-----------------

# Notes to the Financial Statements

For the year ended 31 December 2004

## 16. PROPERTY, PLANT AND EQUIPMENT

### Group

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 January 2004	-	241	885	-	1,126
Additions	2,174	313	891	37	3,415
Disposals	-	(241)	-	-	(241)
At 31 December 2004	2,174	313	1,776	37	4,300
<b>Accumulated depreciation</b>					
At 1 January 2004	-	23	564	-	587
Charge for the year	4	237	233	3	477
Disposals	-	(241)	-	-	(241)
At 31 December 2004	4	19	797	3	823
<b>Net book value</b>					
At 31 December 2004	2,170	294	979	34	3,477
At 31 December 2003	-	218	321	-	539

The leasehold land and buildings are situated in Hong Kong and are held under medium-term leases.

At 31 December 2004 the net book value of property, plant and equipment was pledged as security for the Group's bank loan amounted to HK\$2,170,000 (2003: HK\$Nil).

# Notes to the Financial Statements

For the year ended 31 December 2004

## 17. INVESTMENTS

### (a) Group – Investment held for resale

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	28,672	142,778
Amount due from investment held for resale	2,144	3,777
Less: Impairment loss	<u>(30,816)</u>	<u>(146,555)</u>
	<u>–</u>	<u>–</u>

Investment held for resale was related to an investment in a subsidiary whose subsidiaries own the film copyright and licences. In 2003, investments held for resale also included investment in a disposed subsidiary which was engaged in the provision of network security services.

### (b) Company – Investments in subsidiaries

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	3	155,540
Less: Impairment loss	<u>(3)</u>	<u>(155,540)</u>
	<u>–</u>	<u>–</u>
Amounts due from subsidiaries	185,716	381,480
Less: Provision	<u>(173,139)</u>	<u>(381,480)</u>
	<u>12,577</u>	<u>–</u>
Amounts due to subsidiaries	<u>(32,502)</u>	<u>–</u>
	<u>(19,925)</u>	<u>–</u>

Amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 17. INVESTMENTS (Continued)

### (b) Company – Investments in subsidiaries (Continued)

The following is a list of the principal subsidiaries at 31 December 2004:

Company name	Place of incorporation and principal operation	Issued/ registered and paid up capital	Equity interest attributable to the Group	Principal activities
Prosperity Construction (Hong Kong) Limited	Hong Kong	HK\$2	100%	Construction contractor
Keyway China Limited*	British Virgin Islands/ PRC	US\$100	100%	Construction contractor
United Bright Holdings Limited	Hong Kong	HK\$2	100%	Provision of management services
中盛園林有限公司	PRC	RMB500,000	100%	Construction contractor

\* Shares held directly by the Company

The above table sets out the subsidiaries which, in the opinion of the directors, materially affected the amounts of the results for the year or the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 18. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net liabilities	–	(1,724)
Premium on acquisition of associated companies	–	27,173
Less: Amortisation of premium on acquisition	–	(13,587)
Less: Impairment loss	–	(11,862)
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>

In May 2004, one of the Group's subsidiaries, Hodgkins Enterprises Limited ("Hodgkins"), was struck off and accordingly the associated companies held by Hodgkins are excluded from the Group.

## 19. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	331	–
Construction supplies	417	–
	<u>748</u>	<u>–</u>
	<u>748</u>	<u>–</u>

## 20. CLUB MEMBERSHIP

	Group HK\$'000
<b>Cost</b>	
At 1 January 2004	370
Deconsolidation of a winding-up subsidiary	(125)
At 31 December 2004	<u>245</u>
<b>Impairment</b>	
At 1 January 2004	125
Deconsolidation of a winding-up subsidiary	(125)
At 31 December 2004	<u>–</u>
<b>Net book value</b>	
At 31 December 2003 and 2004	<u>245</u>

# Notes to the Financial Statements

For the year ended 31 December 2004

## 21. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2004 HK\$'000	2003 HK\$'000
Costs incurred plus attributable profit less foreseeable losses	34,416	–
Less: Progress billings	(17,423)	–
	16,993	–
Amounts due from customers on construction contracts	16,993	–
Amounts due to customers on construction contracts	–	–
	16,993	–

At 31 December 2004, retention held by customers for contract work included in prepayments, deposits and other receivables of the Group amounted to HK\$721,000 (2003: HK\$186,000).

At 31 December 2004, retention held by the Group for contract work included in accruals and other payables amounted to HK\$1,105,000 (2003: HK\$673,000).

## 22. ACCOUNTS RECEIVABLE

The Group has a policy of allowing its trade customers with credit period normally between 30 to 60 days or terms in accordance with construction contracts. The ageing analysis is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Less than 3 months	–	1,693
3 months to 6 months	–	–
6 months to 1 year	–	–
Over 1 year	576	4,767
Less: Provision for doubtful debts	(576)	(4,767)
	–	1,693



## Notes to the Financial Statements

For the year ended 31 December 2004

### 23. ACCOUNTS PAYABLE

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Less than 3 months	3,123	1,371	–	–
3 months to 6 months	246	17,270	–	17,270
6 months to 1 year	–	127	–	–
Over 1 year	544	13,441	–	–
	<u>3,913</u>	<u>32,209</u>	<u>–</u>	<u>17,270</u>

### 24. LONG TERM BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest bearing borrowings		
Bank loan, secured	1,294	–
Current portion of long term borrowings	(71)	–
	<u>1,223</u>	<u>–</u>
The bank loan is repayable as follows:		
Within one year	71	–
In the second year	73	–
In the third to fifth years	232	–
After five years	918	–
	<u>1,294</u>	<u>–</u>

The Group's bank loan is secured by the pledge of Group's leasehold land and buildings, and guarantees executed by an executive director and the Company, and interest-bearing at prime rate minus 2.25% per annum.

### 25. SHAREHOLDER'S LOAN

The shareholder's loan is unsecured and interest-bearing at prime rate plus 2% per annum and repayable on demand.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 26. SHARE CAPITAL

### (a) Share capital

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each at 1 January 2003	4,000,000	400,000
Share consolidation ( <i>note (i)</i> )	(3,800,000)	–
	<hr/>	<hr/>
Ordinary shares of HK\$2 each at 31 December 2003	200,000	400,000
Share subdivision ( <i>note (iii)</i> )	39,800,000	–
	<hr/>	<hr/>
Ordinary shares of HK\$0.01 each at 31 December 2004	<u>40,000,000</u>	<u>400,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1 January 2003	1,940,461	194,046
Shares issued for debt equity swap arrangements ( <i>note (ii)</i> )	108,774	10,877
Share consolidation ( <i>note (i)</i> )	(1,946,773)	–
	<hr/>	<hr/>
Ordinary shares of HK\$2 each at 31 December 2003	102,462	204,923
Capital reduction ( <i>note (iv)</i> )	–	(203,898)
Issue of Offer Shares ( <i>note (v)</i> )	512,308	5,123
Issue of Creditors Shares upon settlement of debts ( <i>note (vi)</i> )	180,000	1,800
Top-Up subscription ( <i>note (vii)</i> )	60,000	600
	<hr/>	<hr/>
Ordinary shares of HK\$0.01 each at 31 December 2004	<u>854,770</u>	<u>8,548</u>

# Notes to the Financial Statements

For the year ended 31 December 2004

## 26. SHARE CAPITAL (Continued)

### (a) Share capital (Continued)

Note:

- (i) Pursuant to the Capital Reorganisation (note 2(b)(i)), a resolution was passed at a special general meeting held on 1 December 2003, every twenty issued and unissued shares of HK\$0.10 each in the capital of the Company be consolidated into one share of HK\$2.00 each. This process was completed on 2 December 2003.
- (ii) In May 2003, the Group has entered into settlement agreement ("Debt Equity Swap") with 16 creditors whereby these creditors agreed to accept 108,774,440 new shares of the Company at HK\$0.10 each as full and final settlement of the aggregate liabilities due to these creditors amounting to HK\$10,877,000.
- (iii) Pursuant to the Capital Reorganisation (note 2(b)(i)), on 27 April 2004, all of the authorised but unissued shares of HK\$2.00 each in the capital of the Company be sub-divided into two hundred shares of HK\$0.01 each.
- (iv) Pursuant to the Capital Reorganisation (note 2(b)(i)), on 27 April 2004, the issued share capital of the Company was reduced by cancelling paid up capital to the extent of HK\$1.99 on each issued share such that the nominal value of all the issued shares was reduced from HK\$2.00 to HK\$0.01 each.
- (v) Pursuant to the Open Offer (note 2(b)(iii)), on 27 April 2004, 512,308,705 Offer Shares of HK\$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company were issued at a subscription price of HK\$0.045 per Offer Shares.
- (vi) Pursuant to the Creditors' Scheme (note 2(b)(ii)), on 27 April 2004, 180,000,000 Creditors Shares of HK\$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company were issued at HK\$0.10 per Creditors Shares to the Scheme Creditors for the settlement of the Total Indebtedness owed by the Company to the Scheme Creditors.
- (vii) On 29 November 2004, Main Faith Limited ("Main Faith"), a company which is wholly and beneficially owned by an executive director, entered into a placing agreement ("Placing Agreement I") and, a top-up subscription agreement ("Top-Up Subscription Agreement I") with a placing agent and the Company respectively.

Pursuant to the Placing Agreement I, Main Faith placed an aggregate of 60,000,000 existing shares at a price of HK\$0.08 per share, on a fully underwritten basis, to not fewer than six placees which is independent individual, corporate and/or institutional investors on 13 December 2004.

Pursuant to the Top-Up Subscription Agreement I, Main Faith subscribed for an aggregate of 60,000,000 shares at a price of HK\$0.08 per share. The Top-Up subscription share ranking pari passu in all respects with the existing ordinary shares of the Company.

Details of the Placing Agreement I and Top-Up Subscription Agreement I were disclosed in the Company's announcement dated 29 November 2004.

## Notes to the Financial Statements

For the year ended 31 December 2004

### 26. SHARE CAPITAL (Continued)

#### (b) Share option scheme

On 11 June 1997, the Company in general meeting adopted a share option scheme under which the directors may, at their discretion and at any time during the ten years from the date of adoption, invite any full-time employee or executive director of the Group to take up options to subscribe for shares of the Company. The subscription price may not be less than the greater of 80% of the average closing price of the Company's shares as quoted on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of option from time to time. The scheme became effective upon the listing of the Company's shares on the Stock Exchange on 26 June 1997.

As at 31 December 2004, there are no outstanding share options granted.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 27. RESERVES

### (a) Group

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	General reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2003	459,012	22,130	569	-	(601,285)	(119,574)
Realisation of exchange reserve on deconsolidation of a subsidiary	-	-	(569)	-	-	(569)
Loss for the year	-	-	-	-	(262,341)	(262,341)
Balance at 31 December 2003	459,012	22,130	-	-	(863,626)	(382,484)
Share premium cancellation (notes (i) and (ii))	(459,012)	459,012	-	-	-	-
Capital reduction (note 26(a)(iv))	-	203,898	-	-	-	203,898
Issue of Offer Shares (note 26(a)(v))	17,931	-	-	-	-	17,931
Offer Shares issue expenses	(2,150)	-	-	-	-	(2,150)
Issue of Creditors Shares (note 26(a)(vi))	16,200	-	-	-	-	16,200
Top-Up subscription of new shares (note 26(a)(vii))	4,200	-	-	-	-	4,200
New shares issue expenses	(218)	-	-	-	-	(218)
Credit transfer (note(ii))	-	(606,013)	-	-	606,013	-
Realisation of contributed surplus on disposal of a subsidiary (note 28(c))	-	(22,130)	-	-	-	(22,130)
Profit for the year	-	-	-	-	161,851	161,851
Transferred from accumulated losses (note (iii))	-	-	-	62	(62)	-
<b>Balance at 31 December 2004</b>	<b>35,963</b>	<b>56,897</b>	<b>-</b>	<b>62</b>	<b>(95,824)</b>	<b>(2,902)</b>
Company and subsidiaries	459,012	22,130	-	-	(863,142)	(382,000)
Associated companies	-	-	-	-	(484)	(484)
At 31 December 2003	459,012	22,130	-	-	(863,626)	(382,484)
Company and subsidiaries	35,963	56,897	-	62	(95,824)	(2,902)
Associated companies	-	-	-	-	-	-
At 31 December 2004	35,963	56,897	-	62	(95,824)	(2,902)

The contribution surplus of the Group represents the remaining balance of the aggregate amount of the capital reduction and the share premium cancellation after credit transferred to accumulated losses pursuant to the implementation of restructuring proposal on 27 April 2004.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 27. RESERVES (Continued)

### (b) Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2003	459,012	–	(491,898)	(32,886)
Loss for the year	–	–	(301,525)	(301,525)
Balance at 31 December 2003	459,012	–	(793,423)	(334,411)
Share premium cancellation (note (i) and (ii))	(459,012)	459,012	–	–
Capital reduction (note 26(a)(iv))	–	203,898	–	203,898
Issue of Offer Shares (note 26(a)(v))	17,931	–	–	17,931
Offer Shares issue expenses	(2,150)	–	–	(2,150)
Issue of Creditors Shares (note 26(a)(vi))	16,200	–	–	16,200
Top-Up subscription of new shares (note 26(a)(vii))	4,200	–	–	4,200
New shares issue expenses	(218)	–	–	(218)
Credit transfer (note (iii))	–	(606,013)	606,013	–
Profit for the year	–	–	57,596	57,596
<b>Balance at 31 December 2004</b>	<b>35,963</b>	<b>56,897</b>	<b>(129,814)</b>	<b>(36,954)</b>

The contribution surplus of the Company represents the remaining balance of the aggregate amount of the capital reduction and the share premium cancellation after credit transferred to accumulated losses pursuant to the implementation of restructuring proposal on 27 April 2004 and to a resolution passed at a special general meeting on 1 December 2003.

Note:

- (i) Pursuant to the Capital Reorganisation (note 2(b)(i)) and pursuant to a resolution passed at a special general meeting on 1 December 2003, the share premium of the Company was cancelled on 27 April 2004.
- (ii) Pursuant to the Capital Reorganisation (note 2(b)(i)) and pursuant to a resolution passed at a special general meeting on 1 December 2003, the credit arising from the capital reduction and the share premium cancellation be transferred to the contributed surplus account of the Company on 27 April 2004 and thereafter be applied against the accumulated losses of the Company as at 30 June 2003.
- (iii) In accordance with the PRC regulations, the general reserves retained by a subsidiary in the PRC are non-distributable.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Analysis of changes in financing during the year:

	2004			2003		
	Share capital and share premium HK\$'000	Loan notes, debenture and promissory notes HK\$'000	Total HK\$'000	Share capital and share premium HK\$'000	Loan notes, debenture and promissory notes HK\$'000	Total HK\$'000
Beginning of year	663,935	50,000	713,935	653,058	69,800	722,858
Shares issued for debt equity swap arrangements	-	-	-	10,877	(800)	10,077
Non-cash consideration for settlement for loan notes and debentures	-	-	-	-	(19,000)	(19,000)
Share premium cancellation	(459,012)	-	(459,012)	-	-	-
Capital reduction	(203,898)	-	(203,898)	-	-	-
Issue of Offer Shares	23,054	-	23,054	-	-	-
Offer Shares issue expenses	(2,150)	-	(2,150)	-	-	-
Repayment to Scheme Creditors	-	(4,656)	(4,656)	-	-	-
Issue of creditors' shares for non-cash consideration	18,000	(6,984)	11,016	-	-	-
Top-up subscription	4,800	-	4,800	-	-	-
New shares issue expenses	(218)	-	(218)	-	-	-
Discharged by creditors' scheme	-	(38,360)	(38,360)	-	-	-
End of year	<u>44,511</u>	<u>-</u>	<u>44,511</u>	<u>663,935</u>	<u>50,000</u>	<u>713,935</u>

# Notes to the Financial Statements

For the year ended 31 December 2004

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Gain on deconsolidation of a subsidiary under winding up Court order

	2004 HK\$'000	2003 HK\$'000
Net liabilities of winding up subsidiary		
Bank and cash balances	43	-
Accruals and other payables	(37,577)	-
Accounts payable	(12,695)	-
Retention payables	(10)	-
	<u>(50,239)</u>	<u>-</u>
Net cash outflow arising from deconsolidation of a subsidiary under winding up Court order:		
Bank and cash balances	<u>(43)</u>	<u>-</u>

### (c) Gain on disposal of subsidiaries

During the year, the Group disposed of subsidiaries namely, Prosper eVision Management Limited, OLS Management Limited, Top Wishes Holdings Limited, OLS Investment Holdings Limited and Prosper eVision Finance Limited for a nominal consideration of HK\$6.

	<b>Total</b> HK\$'000
Net (liabilities)/assets disposed of:	
Prepayments, deposits and other receivables	22
Bank and cash balances	2
Trade payables	(176)
Other payables and accrued liabilities	(721)
Taxation	(19)
Net amounts due to group companies	<u>(282,996)</u>
	(283,888)
Contributed surplus	(22,130)
Waiver of amounts due to group companies	<u>282,996</u>
	(23,022)
Gain on disposal of subsidiaries	<u>23,022</u>
Total consideration, satisfied by cash	<u>-</u>
Analysis of the net cash outflow of cash and cash equivalents in respect of the disposal of subsidiaries:	
Bank balances and cash disposed of	<u>(2)</u>

The subsidiaries disposed of during the year have no contribution to the Group's turnover but resulted in a loss of HK\$201,000 to the Group which was included in the determination of consolidated income statement.



## Notes to the Financial Statements

For the year ended 31 December 2004

### 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (d) Major non-cash transactions

Upon the completion of the Creditors' Scheme on 27 April 2004, total indebtedness of HK\$100,306,000 was waived by Scheme Creditors.

### 29. LEASE COMMITMENTS

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	–	369	–	208
In the second to fifth years	–	225	–	69
After five years	–	–	–	–
	<u>–</u>	<u>594</u>	<u>–</u>	<u>277</u>

### 30. CONTINGENT LIABILITIES

At 31 December 2004, the Company executed corporate guarantee amounting to HK\$1,294,000 (2003: Nil) in favour of a bank to secure a bank loan granted to its subsidiary.

### 31. BANKING FACILITIES

At 31 December 2004, the Group has banking facilities totaling HK\$1,294,000. These banking facilities were secured by the pledge of the Group's leasehold land and buildings and a personal guarantee executed by an executive director of the Company and corporate guarantee by the Company.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 32. RELATED PARTY TRANSACTIONS

- (a) Pursuant to the Creditors' Scheme (note 2(b)(ii)), the Group repaid an aggregate amount of HK\$626,000 in cash and issued an aggregate of 9,395,000 Creditors Shares to four executive directors so as to discharge total scheme indebtedness of HK\$6,726,000 owing to four executive directors. The resulting gain of HK\$5,160,000 arising from debts discharged under the Creditors' Scheme has been credited to the income statement.
- (b) Pursuant to an agreement entered into between the Company and a shareholder, the shareholder committed to provide a loan with maximum amount of HK\$10 million to the Company for daily operation with interest rate at prime rate plus 2% per annum (note 25). The loan is unsecured and repayable on demand. During the year, the Group paid interest of HK\$495,000 in relation to shareholder's loan.
- (c) During the year, the Group recognised construction revenue of HK\$366,000 (2003: HK\$1,667,000) from a company in which an executive director of the Company is a beneficial shareholder.
- (d) During the year, the Group paid rental of HK\$39,000 in relation to office premises and staff quarters in the PRC, to a company in which an executive director is a beneficial shareholder.
- (e) As at 31 December 2004, included in the following accounts are amounts due from a company in which an executive director is a beneficial shareholder:

	2004 HK\$	2003 HK\$
Prepayments, deposits and other receivables	84,000	83,000
Gross amounts due from customers on construction contracts	<u>121,000</u>	<u>—</u>

## Notes to the Financial Statements

For the year ended 31 December 2004

### 33. POST BALANCE SHEET EVENTS

- (a) On 13 January 2005, the Group injected HK\$1,000,000 capital into a newly formed subsidiary 中盛企業管理顧問有限公司. The capital injection has been verified by a firm of certified public accountants in the PRC on 20 January 2005.
- (b) On 23 March 2005, Main Faith entered into a placing agreement ("Placing Agreement II") and a top-up subscription agreement ("Top-Up Subscription Agreement II") with a placing agent and the Company respectively.

Pursuant to the Placing Agreement II, Main Faith agreed to place an aggregate of 98,900,000 existing shares at a price of HK\$0.08 per share, on a fully underwritten basis, to not fewer than six placees which are independent individuals, corporate and/or institutional investors. The Placing Agreement II was completed on 31 March 2005.

Pursuant to the Top-Up Subscription Agreement II, Main Faith conditionally agreed to subscribe for an aggregate of 98,900,000 shares at a price of HK\$0.08 per share. However, the Top-Up Subscription Agreement II was lapsed given that one of the conditions precedent has not been fulfilled on or before 6 April 2005. Accordingly, the top-up subscription was not completed and the Company could not obtain the net proceeds of about HK\$7.5 million for the general working capital purpose from the top-up subscription. The Company confirmed that there is no material impact on its financial position as a result thereof.

Details of the Placing Agreement II and Top-Up Subscription Agreement II, and the lapse of Top-Up Subscription Agreement II were disclosed in the Company's announcements dated 23 March 2005 and 6 April 2005 respectively.

### 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 27 April 2005.