

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standards 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA")

These condensed consolidated financial statements should be read in conjunction with the 2004/2005 annual report.

The accounting policies and computation method used in the preparation of these condensed consolidated financial statements are consistent with those adopted in the financial statements for the year ended 31 March 2005 except that the Group has adopted certain new or revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards and Interpretations issued by the HKICPA ("new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial statements have been prepared in accordance with those new HKFRSs issued and effective as at the time of preparing these information. The new HKFRSs that will be applicable on 1 January 2006, including those that will be applicable on an optional basis, cannot be ascertained at the time of preparing these interim financial information.

2. CHANGES IN ACCOUNTING POLICIES

Except for the adoption of the following new HKFRSs, the adoption of other new HKFRSs has no material impact on the accounting policies of the Group and the computation method of the condensed consolidated financial statements of the Group.

HKAS 40	:	Investment Property
HKFRS 2	:	Share-based Payments
HKFRS 3	:	Business Combinations

Investment Property

The adoption of HKAS 40 has resulted in a change in the accounting policy for investment properties of which the changes in fair values of properties are recorded in the income statement as part of other income and retrospective application is required. In prior years, the increases in fair value were credited to the investment properties revaluation reserves. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

Share-based Payments

In prior years, no employee benefit costs or obligations were required to be recognised by the Group when employees (which term includes directors) were granted share options over shares in the Company. If any share option is exercised, equity will be increased by the amount of the proceeds received.

2. CHANGES IN ACCOUNTING POLICIES (Continued)**Share-based Payments** (Continued)

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within the equity of the Group.

Where the employees are required to meet vesting conditions before they are entitled to the share options, the Group recognizes the fair value of the share options granted over the vesting period. Otherwise, the Group recognizes the fair value in the period in which the options are granted.

If an employee chooses to exercise share options, the related share option reserve is transferred to share capital and share premium, together with the exercise price. If the share options lapse and remain unexercised, the related share option reserve is transferred directly to retained earnings.

Business Combinations

In accordance with HKFRS 3 and with effect from 1 January 2005, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The adoption of HKAS 40 and HKFRS 2 have resulted in changes of accumulated losses and other reserves as at 1 April 2005 and the opening accumulated losses and other reserves.

	Accumulated losses (Increase)/ Decrease	Share capital and other reserves Increase/ (Decrease)	Total
	HK\$	HK\$	HK\$
Effects of new accounting systems and policies			
HKAS 40			
Investment properties revaluation surplus attributable to associates	7,266,392	(7,266,392)	–
HKFRS 2			
Granting of option shares	<u>(2,338,400)</u>	<u>2,338,400</u>	–
Total effect	<u>4,927,992</u>	<u>(4,927,992)</u>	–

2. CHANGES IN ACCOUNTING POLICIES *(Continued)***Business Combinations** *(Continued)*

	For the six months ended 30 September	
	2005 HK\$	2004 HK\$
Effect of new policies (2005: profit increase/(decrease)) (2004: loss (increase)/decrease)		
HKFRS 2	—	(2,338,400)
HKFRS 3	—	—
Total effect for the period	<u>—</u>	<u>(2,338,400)</u>
Effect on earnings / (loss) per share		
— basic	—	(0.45) cents
— diluted	—	(0.45) cents

3. Turnover and Segmental information

The Group is principally engaged in property investment and hotel operation.

The Group's revenue and operating results analysed by principal activities and geographical locations are as follows:

(a) Business Segments

Six months ended 30 September 2005 (Unaudited)

	Property investment HK\$	Hotel operation HK\$	Unallocated HK\$	Consolidated HK\$
Revenue from external customers	488,500	8,017,092	–	8,505,592
Other revenue from external customers	–	1,259,337	1,764,366	3,023,703
Total	<u>488,500</u>	<u>9,276,429</u>	<u>1,764,366</u>	<u>11,529,295</u>
Segment results	441,456	18,765,382	–	19,206,838
Unallocated corporate expenses				<u>(1,015,120)</u>
Profit from operations				18,191,718
Finance costs				<u>(1,294,824)</u>
Share of results of associates	(197,963)	–	–	<u>(197,963)</u>
Profit from operating activities before taxation				16,698,931
Taxation	(67,754)	(3,413,218)	–	<u>(3,480,972)</u>
Net profit attributable to the shareholders				<u>13,217,959</u>

No inter-segment sales and transfers were transacted during the period.

3. Turnover and Segmental information (Continued)**(a) Business Segments** (Continued)

Six months ended 30 September 2004 (Unaudited)

	Property investment HK\$	Hotel operation HK\$ (Restated)	Unallocated HK\$ (Restated)	Consolidated HK\$ (Restated)
Revenue from external customers	463,700	8,163,982	–	8,627,682
Other revenue from external customers	–	1,178,231	214,041	1,392,272
Total	463,700	9,342,213	214,041	10,019,954
Segment results	404,638	(1,704,170)	–	(1,299,532)
Unallocated corporate expenses				(3,640,186)
Loss from operations				(4,939,718)
Finance costs				(740,165)
Share of results of associates	82,651	–	–	82,651
Loss from operating activities before taxation				(5,597,232)
Taxation	(14,464)	–	–	(14,464)
Net loss attributable to the shareholders				(5,611,696)

No inter-segment sales and transfers were transacted during the period.

(b) Geographical segments

The following table presents revenue and profit/(loss) for the Group's geographical segments for the six months ended 30 September (Unaudited):

	Hong Kong		PRC	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Segment revenue:				
Revenue from external customers	488,500	463,700	8,017,092	8,163,982
Segment results	441,456	404,638	18,765,382	(1,704,170)

4. TAXATION

Taxation in the condensed consolidated income statement comprises:

	For the six months ended 30 September			2004		
	2005			(unaudited)		
	Hong Kong	PRC	Total	Hong Kong	PRC	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Deferred tax	-	(3,413,218)	(3,413,218)	-	-	-
Share of taxation attributable to associates	(67,754)	-	(67,754)	(14,464)	-	(14,464)
	<u>(67,754)</u>	<u>(3,413,218)</u>	<u>(3,480,972)</u>	<u>(14,464)</u>	<u>-</u>	<u>(14,464)</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. The taxation of assessable profits in other regions was based on the applicable tax rates prevailing in those regions, with reference to the existing regulations, interpretations and practices in the regions in which the Group operates.

- (a) No provision for Hong Kong profits tax has to be made in the financial statements as the Company and its subsidiaries did not have any assessable profits for the period (2004: Nil).
- (b) No provision for PRC income tax has to be made as there were no assessable profits for the subsidiaries of the Company operating in the PRC during the period (2004: Nil).

5. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the consolidated net earnings attributable to the shareholders for the period ended 30 September 2005 of HK\$13,217,959 (2004: loss of HK\$5,611,696) and the weighted average number of 520,000,000 (2004: 519,993,846) shares in issue as at 30 September 2005.

Diluted earnings per share was calculated assuming that the conversion of all the ordinary shares with potential dilution effect has been completed upon the adjustment of the weighed average number of shares in issue. In respect of the share options, the number of shares which may be subscribed was determined by the fair value of the monetary values attached to the subscription rights of the share options in issue. The fair value was determined by the average share price of the Company during the year. The increase in the number of shares in the above calculation was assumed to be the number of shares issued through the exercise of the share options.

For the six months ended 30 September 2004 and 2005, all the share options granted under the new share option scheme adopted on 10 May 2004 at an exercise price of HK\$0.184 per share have dilution effect.

6. Interim Dividend

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 September 2005 (Six months ended 30 September 2004: Nil).

7. Fixed assets

	The Group					Total HK\$
	investment properties HK\$	Hotel properties HK\$	Furniture and fixtures HK\$	Leasehold improvements HK\$	Plant, machinery and equipment HK\$	
Cost or valuation						
As at 1 April 2005						
At cost	-	179,000,000	5,844,232	6,555,444	4,331,403	195,731,079
At professional valuation	12,650,000	-	-	-	-	12,650,000
	12,650,000	179,000,000	5,844,232	6,555,444	4,331,403	208,381,079
Additions	-	-	25,248	-	55,953	81,201
Disposals	-	-	(17,829)	-	(155,325)	(173,154)
Exchange difference	-	-	100,640	-	73,424	174,064
As at 30 September 2005	12,650,000	179,000,000	5,952,291	6,555,444	4,305,455	208,463,190
Representing:						
At cost	-	179,000,000	5,952,291	6,555,444	4,305,455	195,813,190
At professional valuation	12,650,000	-	-	-	-	12,650,000
	12,650,000	179,000,000	5,952,291	6,555,444	4,305,455	208,463,190
Accumulated depreciation and impairment losses						
As at 1 April 2005	-	106,500,000	5,585,489	6,133,799	4,068,635	122,287,923
Charge for the period	-	2,034,018	241,982	141,289	273,396	2,690,685
Written back on disposals	-	-	(17,829)	-	(155,325)	(173,154)
Reversal of impairment loss	-	(19,534,018)	-	-	-	(19,534,018)
Exchange difference	-	-	97,216	-	70,533	167,749
As at 30 September 2005	-	89,000,000	5,906,858	6,275,088	4,257,239	105,439,185
Net book value						
As at 30 September 2005	12,650,000	90,000,000	45,433	280,356	48,216	103,024,005
As at 31 March 2005	12,650,000	72,500,000	258,743	421,645	262,768	86,093,156

- (a) The investment properties of the Group and the Company are held under medium-term leases in Hong Kong.
- (b) The hotel properties situated in the PRC are held under medium-term leases. The building ownership certificates for the hotel properties have not been obtained by the Group. According to the legal opinion provided by the Company's PRC legal advisors on 7 July 2005, which confirms that Xiamen South East Asia Hotel Company Limited ("Hotel"), an indirect subsidiary wholly-owned by the Company, has the right to operate and manage the Xiamen South East Asia Hotel, a hotel located in Xiamen city of Fujian province of the PRC, until 31 December 2025 in accordance with the terms of the joint venture agreement entered into between Xiamen Railway Department Company and Yan Hei Limited, a wholly-owned subsidiary of the Company.
- (c) During the Period, the Directors reviewed the carrying value of the hotel properties with reference to the valuation performed by Norton Appraisals Limited. In the opinion of the Directors, the impairment losses previously recognised for the hotel properties have decreased as the recoverable amount is considered to be higher than the carrying value of the hotel properties during the Period, and accordingly, a reversal of impairment loss on hotel properties of HK\$19,534,018 has been credited to the income statement.

8. Inventory

	30 September 2005 (unaudited) HK\$	31 March 2005 (audited) HK\$
At cost	670,810	839,637
Less: Provision for obsolete inventories	(123,820)	(121,692)
	<u>546,990</u>	<u>717,945</u>

9. TRADE AND OTHER RECEIVABLES

The ageing analysis of trade receivables and other receivables were as follows:

	30 September 2005 (unaudited) HK\$	31 March 2005 (audited) HK\$
Trade receivables		
Current to six months	3,564,085	1,621,387
Over six months	659,920	-
	<u>4,224,005</u>	<u>1,621,387</u>
Management fee receivable from ultimate holding company	-	493,150
Loan interest receivable from a fellow subsidiary	-	164,548
Management fee receivable from a fellow subsidiary	262,282	-
Other receivables, utility deposits and prepayments	128,721	1,110,010
	<u>4,615,008</u>	<u>3,389,095</u>

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

10. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables and other payables were as follows:

	30 September 2005 (unaudited) HK\$	31 March 2005 (audited) HK\$
Trade payables		
Current to six months	746,001	1,415,180
Over six months and within one year	691,008	117,836
	1,437,009	1,533,016
Within one year	71,558	555,782
In the second year	1,032,642	508,508
	2,541,209	2,597,306
Accrued charges, tenants' deposits and other payables	9,737,365	13,846,457
	12,278,574	16,443,763
Portion classified as non-current liabilities	(4,710,804)	(7,655,304)
	7,567,770	8,788,459

11. SHARE CAPITAL

	Authorised	
	<i>Number of shares</i>	<i>HK\$</i>
At 31 March 2005 and 30 September 2005	<u>3,040,000,000</u>	<u>380,000,000</u>
	Issued and fully paid	
	<i>Number of shares</i>	<i>HK\$</i>
At 31 March 2005 and 30 September 2005	<u>520,000,000</u>	<u>65,000,000</u>

12. Share options

Share options were granted to the Directors and major employees. The exercise price of the share options granted is equal to or higher than the closing price of the shares on the date of the granting of the share options. During the Period, all those share options were outstanding.

Movement in the number of shares under outstanding share options and their related weighted average exercise prices are as follows:

	For the six months ended 30 September 2005		For the twelve months ended 31 March 2005	
	Average exercise price per Option share	Share options	Average exercise price per Option share	Share options
	(HK\$)	Number of shares	(HK\$)	Number of shares
As at 1 April	0.184	15,800,000	0.184	16,200,000
Lapsed	–	–	0.184	(400,000)
As at 30 September/31 March	<u>0.184</u>	<u>15,800,000</u>	<u>0.184</u>	<u>15,800,000</u>

The fair value of options granted during the six months ended 30 September 2005 were determined at approximately HK\$2,338,400 by using Black-Scholes Option Pricing Model. The key valuation parameters as adopted in assessing the fair value of the share options included the exercise price, risk free rate, nature of the share options, expect life of the options, volatility and expected dividend yield. The valuation assumed that there will be no substantial fluctuations in the economic outlook and specific industry outlook affecting the continuity of the Group's business and the price of the underlying securities. It also assumed that there will be no material changes in the existing political, legal, technological, fiscal or economic conditions which may significantly affect the continuity of the Group's business.

13. PLEDGE OF ASSETS

As at 30 September 2005, bank loan and other borrowings of HK\$24,922,596 (31 March 2005: HK\$24,494,333) are secured by the Group's 40% interests in Hotel. No other properties and bank deposits of the Group were pledged to secure banking facilities for the Group.

14. RELATED PARTY TRANSACTIONS

During the Period, the Group had entered into the following significant related party transactions:

		For the six months ended 30 September 2005 (unaudited) HK\$	2004 (unaudited) HK\$
	<i>Notes</i>		
Rental payable to Fujian Properties Limited ("Fujian Properties"), a wholly-owned subsidiary of Fujian Investment and Development Company Limited ("FIDC") (the Group's ultimate controlling shareholder) is as follows:			
– rental for Directors quarters	1	66,000	66,000
– rental for staff quarters	1	60,000	–
Rental for Directors quarters payable to Perfect Lotus Limited, a wholly-owned subsidiary of FIDC	1	126,000	126,000
Interest of secured loan due from Brilliant Well Investment Limited, a wholly-owned subsidiary of FIDC	2	537,719	–
Entrusted management service fee due from FIDC	3	1,184,851	–
Negative goodwill arising from the acquisition of a 25% equity interest in Fuzhou Harmony Piano Co., Ltd. from Fairweal Industrial Company Limited, a subsidiary of FIDC by Ming Chuen Construction Company, Limited, a wholly-owned subsidiary of the Group	4	670,343	–

14. RELATED PARTY TRANSACTIONS *(Continued)*

1. The rental was calculated with reference to open market rentals.
2. The interest of loan was reached after arms length negotiation between the Group and Brilliant Well with reference to the benchmark interest rate (the prevailing interest rate was 5.76% upon the signing of the loan agreement) of loans with similar terms issued by the People's Bank of China. Fujian Properties has pledged properties of an estimated aggregate value of HK\$25,000,000 to the Group to secure loans.
3. The consideration for the management service agreement consists of a fixed management fee of HK\$2,000,000 per annum and a floating management fee on the basis of 10% of the balance after deducting the fixed management fee from the net profits after tax of Huamin Tourism and Harmony Piano respectively.
4. The calculation was based on the agreement dated 11 November 2004 in relation to the acquisition of Fuzhou Harmony Piano Co, Ltd at a consideration of HK\$4,848,500 by the Group.