# Notes to the Financial Statements

*(Expressed in Hong Kong dollars)*

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2006 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associate and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 38.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interest and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)).

### (d) Associates and jointly controlled entities

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the group and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see note 1(e) and (k)).

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Associates and jointly controlled entities (Continued)

When the group's share of losses exceeds its interest in the associate or the jointly controlled entity, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payment on behalf of the associate or the jointly controlled entity. For this purpose, the group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the group and its associate and its jointly controlled entities are eliminated to the extent of the group's interest in the associate or jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the consolidated income statement.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Other investments in equity securities

The group's and the company's policies for investments in equity securities other than investments in subsidiaries, associate and jointly controlled entities are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

Investments are recognised/derecognised on the date the group or the company commits to purchase/sell the investments or they expire.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment properties is accounted for as described in note 1(v)(i).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

### (h) Plant and equipment

Plant and equipment is stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)).

Gains or losses arising from the retirement or disposal of a plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

| | |
|---|---|
| – Motor vehicles | 5 years |
| – Furniture, fixtures and other fixed assets | 3 to 5 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (i) Intangible assets

Intangible assets that are acquired by the group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 1(k)). Intangible assets with indefinite useful life are stated at cost less accumulated impairment losses and are tested annually for impairment (see note 1(k)).

The useful lives of intangible assets that are considered to be indefinite are reviewed annually.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Leased assets

*(i) Classification of assets leased to the group*

Assets that are held by the group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property which is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)).

*(ii) Operating lease charges*

Where the group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

### (k) Impairment of assets

*(i) Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the receivables and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Impairment of assets (Continued)

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– plant and equipment;

– intangible assets;

– investments in subsidiaries, associate and jointly controlled entities; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

### (m) Properties held for sale

Properties held for sale is stated at the lower of cost and net realisable value.

Cost is calculated using the specific identification cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the property to its present location and condition.

Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When properties held for sale are sold, the carrying amount of those properties is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value and all losses of properties are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of properties is recognised as a reduction in the amount of properties recognised as an expense in the period in which the reversal occurs.

### (n) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

### (p) Redeemable convertible preference shares

Preference shares are classified as equity if they are non-redeemable and any dividends are discretionary, or are redeemable but only at the company's option. Dividends on preference shares classified as equity are recognised as distributions within equity. Other preference shares are classified as a liability and dividends thereon are recognised on an accruals basis in the income statement as part of finance costs. Preference shares that are convertible to ordinary shares at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as described in note 1(n).

### (q) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that 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 for the purpose of the consolidated cash flow statement.

### (s) Employee benefits

*(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Employee benefits (Continued)

*(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the share option is exercised (when it is transferred to the share premium account) or the share option expires (when it is released directly to retained profits).

*(iii) Termination benefits*

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.

### (t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (t) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group or the company has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

### (v) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

*(i) Rental income from operating leases*

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

*(ii) Guarantee services income*

Guarantee services income and related service income are recognised in the income statement in equal instalments over the guaranteed period, except where an alternative basis is more representative of the pattern of benefits to be derived from guarantee services.

*(iii) Management fee income*

Management fee income is recognised when the management service is rendered.

*(iv) Interest income*

Interest income is recognised as it accrues using the effective interest method.

*(v) Dividends*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rate approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 April 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 April 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### (x) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (y) Related parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (z) Segment reporting

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

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the group and/or company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 39).

### (a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and the company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 March 2005. The effects of the changes in accounting policies on the balances at 1 April 2004 and 2005 are disclosed in note 29.

*(i) Effect on the consolidated financial statements*

**Consolidated income statement for the year ended 31 March 2005**

| | 2005 (as previously reported) $'000 | Effect of new policy (increase/(decrease) in profit for the year) HKAS 1 (note 2(e)) $'000 | HKFRS 2 (note 2(c)) $'000 | Sub-total $'000 | 2005 (as restated) $'000 |
|---|---|---|---|---|---|
| Turnover | 24,735 | – | – | – | 24,735 |
| Direct outgoings | (3,893) | – | – | – | (3,893) |
| | 20,842 | – | – | – | 20,842 |
| Other revenue | 3,905 | – | – | – | 3,905 |
| Other net loss | (136) | – | – | – | (136) |
| Administrative expenses | (19,948) | – | (852) | (852) | (20,800) |
| Other operating expenses | (2,400) | – | – | – | (2,400) |
| Change in fair value of investment properties | 40,464 | – | – | – | 40,464 |
| **Profit from operations** | 42,727 | – | (852) | (852) | 41,875 |
| Finance costs | (2,495) | – | – | – | (2,495) |
| Share of loss of associate | (1,351) | – | – | – | (1,351) |
| Share of losses of jointly controlled entities | (4,654) | 1,456 | – | 1,456 | (3,198) |
| **Profit before taxation** | 34,227 | 1,456 | (852) | 604 | 34,831 |
| Income tax | (6,292) | (1,456) | – | (1,456) | (7,748) |
| **Profit for the year** | 27,935 | – | (852) | (852) | 27,083 |

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (a) Restatement of prior periods and opening balances (Continued)

*(i) Effect on the consolidated financial statements* (Continued)

**Consolidated income statement for the year ended 31 March 2005** (Continued)

| | 2005 (as previously reported) | Effect of new policy (increase/(decrease) in profit for the year) HKAS 1 (note 2(e)) | HKFRS 2 (note 2(c)) | Sub-total | 2005 (as restated) |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Attributable to:** | | | | | |
| Equity shareholders of the company | 27,935 | – | (852) | (852) | 27,083 |
| **Earnings per share** | | | | | |
| Basic (cents) | 1.68 | – | (0.05) | (0.05) | 1.63 |
| Diluted (cents) | 1.40 | – | (0.04) | (0.04) | 1.36 |
| **Other significant disclosure item:** | | | | | |
| Staff costs | (9,812) | – | (852) | (852) | (10,664) |

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (a) Restatement of prior periods and opening balances (Continued)

*(i) Effect on the consolidated financial statements* (Continued)

**Consolidated balance sheet at 31 March 2005**

| | 2005 (as previously reported) $'000 | Effect of new policy (increase/(decrease) in net assets) HKFRS 2 *(note 2(c))* $'000 | HKAS 32 *(note 2(f))* $'000 | Sub-total $'000 | 2005 (as restated) $'000 |
|---|---|---|---|---|---|
| **Total assets less current liabilities** | 601,143 | – | – | – | 601,143 |
| **Non-current liabilities** | | | | | |
| Interest-bearing bank loans | (164,580) | – | – | – | (164,580) |
| Convertible notes | (100,000) | – | – | – | (100,000) |
| Redeemable convertible preference shares | – | – | (6,840) | (6,840) | (6,840) |
| Deferred taxation | (9,583) | – | – | – | (9,583) |
| | (274,163) | – | (6,840) | (6,840) | (281,003) |
| **NET ASSETS** | 326,980 | – | (6,840) | (6,840) | 320,140 |
| **CAPITAL AND RESERVES** | | | | | |
| **Attributable to equity shareholders of the company** | | | | | |
| Share capital | 173,084 | – | (6,840) | (6,840) | 166,244 |
| Share premium | 97,713 | – | – | – | 97,713 |
| Capital reserve | 5,000 | 852 | – | 852 | 5,852 |
| Revaluation reserve | 3,000 | – | – | – | 3,000 |
| General reserve | 6,000 | – | – | – | 6,000 |
| Retained profits | 42,183 | (852) | – | (852) | 41,331 |
| | 326,980 | – | (6,840) | (6,840) | 320,140 |

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (a) Restatement of prior periods and opening balances (Continued)

*(ii) Effect on the company's balance sheet*

**Balance sheet at 31 March 2005**

| | 2005 (as previously reported) | Effect of new policy (increase/(decrease) in net assets) HKFRS 2 (note 2(c)) | HKAS 32 (note 2(f)) | Sub-total | 2005 (as restated) |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Total assets less current liabilities** | 385,284 | – | – | – | 385,284 |
| **Non-current liabilities** | | | | | |
| Convertible notes | (100,000) | – | – | – | (100,000) |
| Redeemable convertible preference shares | – | – | (6,840) | (6,840) | (6,840) |
| | (100,000) | – | (6,840) | (6,840) | (106,840) |
| **NET ASSETS** | 285,284 | – | (6,840) | (6,840) | 278,444 |
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | 173,084 | – | (6,840) | (6,840) | 166,244 |
| Share premium | 97,713 | – | – | – | 97,713 |
| Capital reserve | – | 852 | – | 852 | 852 |
| Revaluation reserve | 3,000 | – | – | – | 3,000 |
| General reserve | 6,000 | – | – | – | 6,000 |
| Retained profits | 5,487 | (852) | – | (852) | 4,635 |
| | 285,284 | – | (6,840) | (6,840) | 278,444 |

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and the company's balance sheet and other significant related disclosure items for the year ended 31 March 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

*(i) Effect on the consolidated financial statements*

**Estimated effect on the consolidated income statement for the year ended 31 March 2006**

| | Estimated effect of new policy (increase/(decrease) in profit for the year) | | | |
|---|---|---|---|---|
| | **HKFRS 2** (note 2(c)) $'000 | **HKAS 1** (note 2(e)) $'000 | **HKAS 32 & 39** (note 2(f)) $'000 | **Total** $'000 |
| Selling and administrative expenses | (2,109) | – | – | (2,109) |
| **Profit from operations** | (2,109) | – | – | (2,109) |
| Finance costs | – | – | (7,606) | (7,606) |
| Share of profit/(loss) of associate | – | (983) | – | (983) |
| Share of profits/(losses) of jointly controlled entities | – | (1,213) | – | (1,213) |
| **Profit before taxation** | (2,109) | (2,196) | (7,606) | (11,911) |
| Income tax | – | 2,196 | – | 2,196 |
| **Profit for the year** | (2,109) | – | (7,606) | (9,715) |
| **Attributable to:** | | | | |
| Equity shareholders of the company | (2,109) | – | (7,606) | (9,715) |
| Minority interests | – | – | – | – |
| **Profit for the year** | (2,109) | – | (7,606) | (9,715) |
| **Earnings per share** | | | | |
| Basic (cents) | (0.13) | – | (0.46) | (0.59) |
| Diluted (cents) | – | – | – | – |
| **Other significant disclosure item:** | | | | |
| Staff costs | (2,109) | – | – | (2,109) |

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (b) Estimated effect of changes in accounting policies on the current period (Continued)

*(i) Effect on the consolidated financial statements* (Continued)

**Estimated effect on the consolidated balance sheet at 31 March 2006**

| | Estimated effect of new policy (increase/(decrease) in net assets) | | | |
|---|---|---|---|---|
| | **HKFRS 2** (note 2(c)) $'000 | **HKFRS 3** (note 2(d)) $'000 | **HKAS 32 & 39** (note 2(f)) $'000 | **Total** $'000 |
| **Non-current assets** | | | | |
| Interest in associate | – | 474 | – | 474 |
| Interest in jointly controlled entities | – | 4,886 | – | 4,886 |
| | – | 5,360 | – | 5,360 |
| **Non-current liabilities** | | | | |
| Convertible notes | – | – | 11,096 | 11,096 |
| Redeemable convertible preference shares | – | – | (1,194) | (1,194) |
| | – | – | 9,902 | 9,902 |
| **NET ASSETS** | – | 5,360 | 9,902 | 15,262 |
| **Effect attributable to equity shareholders of the company** | | | | |
| Share capital | – | – | (6,840) | (6,840) |
| Capital reserve | 2,961 | (5,000) | 22,297 | 20,258 |
| Retained profits | (2,961) | 10,360 | (5,555) | 1,844 |
| | – | 5,360 | 9,902 | 15,262 |
| **Effect attributable to minority interests** | – | – | – | – |
| | – | 5,360 | 9,902 | 15,262 |

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (b) Estimated effect of changes in accounting policies on the current period (Continued)

*(i) Effect on the consolidated financial statements* (Continued)

**Estimated effect on amounts recognised as capital transactions with owners of the group for the year ended 31 March 2006**

| | Effect of new policy (increase/(decrease)) |
|---|---|
| | **HKFRS 2** (note 2(c)) $'000 |
| Attributable to equity shareholders of the company | (2,109) |
| Minority interests | – |
| Total equity | (2,109) |

*(ii) Effect on the company's balance sheet*

**Estimated effect on the balance sheet at 31 March 2006**

| | Estimated effect of new policy (increase/(decrease) in net assets) | | |
|---|---|---|---|
| | **HKFRS 2** (note 2(c)) $'000 | **HKAS 32 & 39** (note 2(f)) $'000 | **Total** $'000 |
| **Non-current liabilities** | | | |
| Convertible notes | – | 11,096 | 11,096 |
| Redeemable convertible preference shares | – | (1,194) | (1,194) |
| **NET ASSETS** | – | 9,902 | 9,902 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | – | (6,840) | (6,840) |
| Capital reserve | 2,961 | 22,297 | 25,258 |
| Revaluation reserve | – | – | – |
| Retained profits | (2,961) | (5,555) | (8,516) |
| | – | 9,902 | 9,902 |

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (b) Estimated effect of changes in accounting policies on the current period (Continued)

*(ii) Effect on the company's balance sheet* (Continued)

**Estimated effect on amounts recognised as capital transactions with owners of the company for the year ended 31 March 2006**

| | Effect of new policy (increase/(decrease)) |
|---|---|
| | **HKFRS 2** (note 2(c)) $'000 |
| Attributable to equity shareholders of the company | (2,109) |

### (c) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted options over ordinary shares of the company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 April 2005, in order to comply with HKFRS 2, the group has adopted a new policy for employee share options. Under the new policy, the group recognises the fair value of such options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(s)(ii).

The new accounting policy has been applied retrospectively with comparatives restated, except that the group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The adjustments for each financial statement line affected for the years ended 31 March 2005 and 2006 are set out in notes 2(a) and (b). No adjustments to the opening balances as at 1 April 2004 are required as no options existed at that date.

Details of the employee share option scheme are set out in note 28.

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (d) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

*Amortisation of goodwill*

In prior years:

– positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 April 2005, in order to comply with HKFRS 3 and HKAS 36, the group has changed its accounting policies relating to goodwill. Under the new policy, the group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 April 2005 and in accordance with HKFRS 3, 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. Further details of these new policies are set out in note 1(e).

The new policy in respect of the amortisation of positive goodwill had no effect on the financial statements as there was no positive goodwill subject to amortisation as at 31 March 2005.

The new policy in respect of negative goodwill has been adopted prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line affected for the year ended 31 March 2006 are set out in note 2(b).

### (e) Changes in presentation (HKAS 1, Presentation of financial statements)

*(i) Presentation of shares of associate's and jointly controlled entities' taxation (HKAS 1, Presentation of financial statements)*

In prior years, the group's share of taxation of associate and jointly controlled entities accounted for using the equity method was included as part of the group's income tax in the consolidated income statement. With effect from 1 April 2005, in accordance with the implementation guidance in HKAS 1, the group has changed the presentation and includes the share of taxation of associate and jointly controlled entities accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (e) Changes in presentation (HKAS 1, Presentation of financial statements) (Continued)

*(ii) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the company).

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, the group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the company. Further details of the new policy are set out in note 1(c).

No restatement of comparative figures are necessary since there were no minority interests in the prior year.

### (f) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 April 2005, in order to comply with HKAS 32 and HKAS 39, the group has changed its accounting policies relating to financial instruments to those as set out in notes 1(f), (k), (l) and (n) to (q). Further details of the changes are as follows:

*(i) Investments in equity securities*

In prior years, trading securities were stated at fair value with changes in fair value recognised in the income statement.

With effect from 1 April 2005, and in accordance with HKAS 39, all trading securities are classified as financial assets at fair value through the income statement and carried at fair value. Changes in fair value are recognised in the income statement. This new accounting policy has no impact on the financial statements for the year and the comparative information.

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (f) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) (Continued)

*(ii) Convertible notes*

In prior years, convertible notes issued were stated at amortised cost (including transaction costs).

With effect from 1 April 2005, and in accordance with HKAS 32 and HKAS 39, convertible notes issued are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits). Further details of the new policies are set out in note 1(n).

The changes in accounting policy were adopted by way of an adjustment to opening balances as at 1 April 2005 and the adjustments for each financial statement line affected for the year ended 31 March 2006 are set out in note 2(b). Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

*(iii) Redeemable convertible preference shares*

In prior years, redeemable convertible preference shares were classified as equity based on their legal form. Dividends paid to the preference shares were presented as a distribution to shareholders.

With effect from 1 April 2005, and in accordance with HKAS 32, the classification of redeemable convertible preference shares is based on the substance of the contractual arrangement. Consequently, the shares have been classified as liabilities and dividends on the shares are recognised as an expense in the income statement. Further details of the new policy are set out in note 1(p).

The change in accounting policy has been adopted retrospectively the effects of which are set out in note 2(a).

Also, with effect from 1 April 2005, and in accordance with HKAS 39, redeemable convertible preference shares are split into their liability and equity components at initial recognition which is similar to convertible notes as explained in note 2(f)(ii). This change has been adopted by way of an adjustment to opening balances as at 1 April 2005 and the adjustments for each financial statement line affected for the year ended 31 March 2006 are set out in note 2(b). Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (g) Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from 1 April 2005, in order to comply with HKAS 21, the group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. Further details of the new policy are set out in note 1(w).

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after 1 January 2005. As the goodwill arising on the acquisition of the new foreign operations during the year was fully impaired as at 31 March 2006, the change in policy has had no impact on the financial statements for the year ended 31 March 2006.

### (h) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(y) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, “Related party disclosures”, still been in effect.

### (i) Club debentures (HKAS 38, Intangible assets)

In prior years, club debentures were stated at fair value with changes in fair value recognised in equity.

With effect from 1 April 2005, the group has adopted a new policy for club debentures. Under the new policy, club debentures are stated at carrying amount less accumulated impairment losses and are tested annually for impairment. Further details of the new policy are set out in notes 1(i).

This change in accounting policy has no impact on the financial statements for the years presented.

## 3 TURNOVER

The principal activities of the group are property development and investment and provision of financial services in Hong Kong and the People's Republic of China other than Hong Kong (the "PRC").

Turnover represents the gross rental income derived from the investment properties situated in Hong Kong and the guarantee service income from provision of financial services in the PRC.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | **2006 $'000** | 2005 $'000 |
|---|---|---|
| Gross rental income | **31,871** | 24,735 |
| Guarantee service income | **8,091** | – |
| | **39,962** | 24,735 |

## 4 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

| | **2006 $'000** | 2005 $'000 |
|---|---|---|
| **Other revenue** | | |
| Dividend income from listed securities | **86** | – |
| Write-back of long-outstanding payables | **–** | 1,352 |
| Interest income | **2,273** | 1,332 |
| Management fee income | **620** | 527 |
| Rentals receivable from intangible assets | **143** | 200 |
| Loan arrangement fee income from a jointly controlled entity | **879** | – |
| Others | **445** | 494 |
| | **4,446** | 3,905 |
| **Other net income/(loss)** | | |
| Net gain/(loss) on disposals of fixed assets | **5** | (136) |
| Net realised and unrealised gains on trading securities | **2,158** | – |
| | **2,163** | (136) |

## 5 PROFIT BEFORE TAXATION

**Profit before taxation is arrived at after charging/(crediting):**

| | | 2006<br>$'000 | 2005<br>(restated)<br>$'000 |
|---|---|---|---|
| (a) | Finance costs: | | |
| | Interest on bank loans and other borrowings wholly repayable within five years | **2,939** | 107 |
| | Interest on bank loans repayable beyond five years | **7,160** | 2,388 |
| | Interest on convertible notes | **7,451** | – |
| | Interest on redeemable convertible preference shares | **155** | – |
| | | **17,705** | 2,495 |
| (b) | Staff costs (including directors' remuneration (note 7)): | | |
| | Salaries, wages and other benefits | **22,074** | 9,639 |
| | Contributions to defined contribution retirement plan | **1,033** | 173 |
| | Equity-settled share-based payment expenses | **2,109** | 852 |
| | | **25,216** | 10,664 |
| (c) | Other operating expenses: | | |
| | Impairment loss on amount due from jointly controlled entity | **2,888** | 2,400 |
| | Impairment of goodwill | **11,411** | – |
| | | **14,299** | 2,400 |
| (d) | Other items: | | |
| | Auditors' remuneration | **1,391** | 789 |
| | Depreciation | **1,014** | 187 |
| | Impairment loss on trade receivables | **556** | – |
| | Operating lease charges for property rentals | **3,803** | – |
| | Net foreign exchange loss | **328** | – |
| | Share of associate's taxation | **983** | – |
| | Share of jointly controlled entities' taxation | **1,213** | (1,456) |
| | Repairs and maintenance expenses of investment properties | **667** | 3,888 |
| | Rentals receivable from investment properties less direct outgoings of $6,040,000 (2005: $3,893,000)# | **(25,831)** | (20,842) |

# Direct outgoings include approximately $181,000 (2005: $976,000) incurred in relation to vacant units which did not generate any rental income during the year.

## 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | 2006 $'000 | 2005 (restated) $'000 |
|---|---|---|
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **1,176** | 363 |
| Under/(over)-provision in respect of prior years | **257** | (226) |
| | **1,433** | 137 |
| **Current tax – PRC Income Tax** | | |
| Provision for the year | **257** | – |
| | **1,690** | 137 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **7,417** | 7,611 |
| | **9,107** | 7,748 |

The provision for Hong Kong Profits Tax for the year ended 31 March 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in the PRC is charged at the appropriate current rates of taxation ruling in the PRC.

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2006 $'000 | 2005 (restated) $'000 |
|---|---|---|
| Profit before taxation | **12,968** | 34,831 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned | **711** | 6,095 |
| Tax effect of non-deductible expenses | **6,397** | 1,493 |
| Tax effect of non-taxable income | **(1,063)** | (16) |
| Tax effect of unused tax losses not recognised | **2,805** | 402 |
| Under/(over)-provision in prior years | **257** | (226) |
| Actual tax expense | **9,107** | 7,748 |

## 7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

| | Directors' fee $'000 | Salaries, allowances and benefits in kind $'000 | Retirement scheme contributions $'000 | Discretionary bonus $'000 | Share-based payments $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2006** | | | | | | |
| *Executive directors* | | | | | | |
| Mr Wong Yu Lung, Charles | – | 1,710 | 12 | 120 | 265 | 2,107 |
| Mr Kee Wah Sze | – | 900 | 12 | – | 265 | 1,177 |
| Mr Ko Po Ming | 25 | – | – | – | 110 | 135 |
| Mr Lan Ning | – | 861 | 18 | – | 265 | 1,144 |
| Mr Ding Chung Keung, Vincent | – | 980 | 10 | 80 | 220 | 1,290 |
| Ms Loh Jiah Yee, Katherine | 10 | – | – | – | – | 10 |
| *Independent non-executive directors* | | | | | | |
| Mr Ip Yin Wah | 60 | – | – | – | 28 | 88 |
| Mr Ma Ho Fai JP | 120 | – | – | – | 28 | 148 |
| Mr Melvin Jitsumi Shiraki | 60 | – | – | – | 28 | 88 |
| Mr Zhang Xiao Shu | 20 | – | – | – | – | 20 |
| Total | 295 | 4,451 | 52 | 200 | 1,209 | 6,207 |

## 7 DIRECTORS' REMUNERATION (Continued)

| | Directors' fee $'000 | Salaries, allowances and benefits in kind $'000 | Retirement scheme contributions $'000 | Discretionary bonus $'000 | Share-based payments $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2005 (restated)** | | | | | | |
| *Executive directors* | | | | | | |
| Mr Wong Yu Lung, Charles | – | 1,440 | 12 | – | 109 | 1,561 |
| Mr Kee Wah Sze | – | 720 | 12 | – | 109 | 841 |
| Mr Ko Po Ming | 15 | 45 | 2 | – | 109 | 171 |
| Mr Lan Ning | – | 600 | 12 | – | 109 | 721 |
| Ms Loh Jiah Yee, Katherine | 15 | 1,080 | 9 | – | 109 | 1,213 |
| *Independent non-executive directors* | | | | | | |
| Mr Ip Yin Wah | 31 | – | – | – | – | 31 |
| Mr Ma Ho Fai JP | 120 | – | – | – | – | 120 |
| Mr Melvin Jitsumi Shiraki | 31 | – | – | – | – | 31 |
| Mr Zhang Xiao Shu | 210 | – | – | – | – | 210 |
| Total | 422 | 3,885 | 47 | – | 545 | 4,899 |

There were no amounts paid during 2006 (2005: $Nil) to the directors in connection with their retirement from employment with the group, or as an inducement to join the group. There was no arrangement under which a director waived or agreed to waive any remuneration in 2006 (2005: $Nil).

The above emoluments include the value of share options granted to certain directors under the company's share option scheme as estimated at the date of grant. Details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the directors' report and note 28.

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2005: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individual (2005: two) is as follows:

| | **2006** | 2005 (restated) |
|---|---|---|
| | **$'000** | $'000 |
| Salaries and other emoluments | **845** | 1,784 |
| Share-based payments | **–** | 133 |
| Retirement scheme contributions | **6** | 24 |
| | **851** | 1,941 |

The emoluments of the remaining individual (2005: two) with the highest emolument is within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2006** | 2005 |
| $Nil – $1,000,000 | **1** | 1 |
| $1,000,001 – $1,500,000 | **–** | 1 |
| | **1** | 2 |

## 9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company included a loss of $46,164,000 (2005 (restated): $6,499,000) which has been dealt with in the financial statements of the company.

The board of the directors of the company does not recommend the payment of a dividend in respect of the year (2005: $Nil).

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of $3,861,000 (2005 (restated): $27,083,000), and 1,662,440,000 (2005: 1,662,440,000) ordinary shares in issue during the year.

### (b) Diluted earnings per share

The diluted earnings per share for the year ended 31 March 2006 are not presented as there was no dilutive potential ordinary share at the year end.

The calculation of diluted earnings per share for the year ended 31 March 2005 is based on the restated profit attributable to ordinary equity shareholders of the company of $27,083,000 and the weighted average number of ordinary shares of 1,994,695,000, calculated as follows:

Weighed average number of ordinary shares (diluted)

| | 2005<br>'000 |
|---|---|
| Weighted average number of ordinary shares at 31 March | 1,662,440 |
| Effect of conversion of convertible notes (note 26) | 326,473 |
| Effect of conversion of redeemable convertible preference shares (note 30) | 5,782 |
| Weighted average number of ordinary shares (diluted) at 31 March | 1,994,695 |

## 11 SEGMENT REPORTING

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

**Business segments**

The group comprises the following main business segments:

Property leasing and development: the leasing of shops/premises to generate rental income and gain from the appreciation in the properties values in the long term.

Financial services: the provision of loan guarantee services and other financial services.

| | **Property leasing and development** | | **Financial services** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 (restated) | **2006** | 2005 | **2006** | 2005 (restated) |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Revenue from external customers | **31,871** | 24,735 | **8,091** | – | **39,962** | 24,735 |
| Other revenue from external customers | **254** | 460 | **–** | – | **254** | 460 |
| Change in fair value of investment properties | **39,838** | 40,464 | **–** | – | **39,838** | 40,464 |
| | **71,963** | 65,659 | **8,091** | – | **80,054** | 65,659 |
| Segment result | **64,547** | 57,518 | **(30,171)** | – | **34,376** | 57,518 |
| Unallocated operating income and expenses | | | | | **(10,191)** | (15,643) |
| Profit from operations | | | | | **24,185** | 41,875 |
| Finance costs | | | | | **(17,705)** | (2,495) |
| Share of profits/(losses) of associate and jointly controlled entities | **704** | (3,198) | **5,784** | (1,351) | **6,488** | (4,549) |
| Income tax | | | | | **(9,107)** | (7,748) |
| Profit for the year | | | | | **3,861** | 27,083 |
| Depreciation and amortisation for the year | **(304)** | (187) | **(710)** | – | | |
| Impairment of | | | | | | |
| – amounts due from jointly controlled entity | **–** | – | **(2,888)** | (2,400) | | |
| – positive goodwill | **–** | – | **(11,411)** | – | | |
| – trade receivables | **(159)** | – | **(397)** | – | | |

### 11 SEGMENT REPORTING (Continued)

**Business segments** (Continued)

| | Property leasing and development | | Financial services | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 (restated) | **2006** | 2005 | **2006** | 2005 (restated) |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Segment assets | **468,639** | 419,510 | **76,350** | – | **544,989** | 419,510 |
| Interests in associate and jointly controlled entities | **95,467** | 126,549 | **35,538** | 29,280 | **131,005** | 155,829 |
| Unallocated assets | | | | | **77,043** | 53,556 |
| Total assets | | | | | **753,037** | 628,895 |
| Segment liabilities | **(174,646)** | (187,758) | **(62,913)** | – | **(237,559)** | (187,758) |
| Unallocated liabilities | | | | | **(157,964)** | (120,997) |
| Total liabilities | | | | | **(395,523)** | (308,755) |
| Capital expenditure incurred during the year | **3,897** | 5,311 | **1,144** | – | | |

## 11 SEGMENT REPORTING (Continued)

**Geographical segments**

The group operates, through its subsidiaries, associate and jointly controlled entities in two principal economic environments – Hong Kong and the PRC.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

| | **Hong Kong** | | **PRC** | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Revenue from external customers | **31,871** | 24,735 | **8,091** | – |
| Segment assets | **486,138** | 452,969 | **83,984** | – |
| Capital expenditure incurred during the year | **3,897** | 5,311 | **1,144** | – |

## 12 FIXED ASSETS

### (a) The group

| | **Plant and equipment** | **Investment properties** | **Total** |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Cost or valuation:** | | | |
| At 1 April 2004 | 561 | 370,450 | 371,011 |
| Additions | 817 | 4,494 | 5,311 |
| Disposals | (410) | (300) | (710) |
| Fair value adjustment | – | 40,464 | 40,464 |
| At 31 March 2005 | 968 | 415,108 | 416,076 |
| **Representing:** | | | |
| Cost | 968 | – | 968 |
| Valuation – 2005 | – | 415,108 | 415,108 |
| | 968 | 415,108 | 416,076 |
| **Accumulated depreciation:** | | | |
| At 1 April 2004 | 135 | – | 135 |
| Charge for the year | 187 | – | 187 |
| Written back on disposals | (133) | – | (133) |
| At 31 March 2005 | 189 | – | 189 |
| **Net book value:** | | | |
| At 31 March 2005 | 779 | 415,108 | 415,887 |

## 12 FIXED ASSETS (Continued)

### (a) The group (Continued)

| | Plant and equipment $'000 | Investment properties $'000 | Total $'000 |
|---|---|---|---|
| **Cost or valuation:** | | | |
| At 1 April 2005 | 968 | 415,108 | 416,076 |
| Exchange adjustments | 59 | – | 59 |
| Additions | 1,179 | 3,862 | 5,041 |
| Acquisition of subsidiaries | 5,338 | – | 5,338 |
| Disposals | (52) | (108) | (160) |
| Fair value adjustment | – | 39,838 | 39,838 |
| **At 31 March 2006** | **7,492** | **458,700** | **466,192** |
| **Representing:** | | | |
| Cost | 7,492 | – | 7,492 |
| Valuation – 2006 | – | 458,700 | 458,700 |
| | 7,492 | 458,700 | 466,192 |
| **Accumulated depreciation:** | | | |
| At 1 April 2005 | 189 | – | 189 |
| Exchange adjustments | 7 | – | 7 |
| Charge for the year | 1,014 | – | 1,014 |
| Acquisition of subsidiaries | 697 | – | 697 |
| Written back on disposals | (7) | – | (7) |
| **At 31 March 2006** | **1,900** | **–** | **1,900** |
| **Net book value:** | | | |
| **At 31 March 2006** | **5,592** | **458,700** | **464,292** |

## 12 FIXED ASSETS (Continued)

### (b) The company

| | Plant and equipment 2006 $'000 | 2005 $'000 |
|---|---|---|
| **Cost:** | | |
| At 1 April | **946** | 543 |
| Additions | **24** | 813 |
| Disposals | **–** | (410) |
| At 31 March | **970** | 946 |
| **Accumulated depreciation:** | | |
| At 1 April | **178** | 131 |
| Charge for the year | **296** | 180 |
| Written back on disposals | **–** | (133) |
| At 31 March | **474** | 178 |
| **Net book value:** | | |
| At 31 March | **496** | 768 |

### (c) The analysis of net book value of properties is as follows:

The investment properties are situated in Hong Kong and are held under the following lease terms:

| | The group 2006 $'000 | 2005 $'000 |
|---|---|---|
| Long leases | **458,700** | 415,000 |
| Medium-term leases | **–** | 108 |
| | **458,700** | 415,108 |

## 12 FIXED ASSETS (Continued)

**(d)** Investment properties in Hong Kong were valued at $458,700,000 by independent professional qualified valuers, Knight Frank Petty Limited ("Knight Frank") who have among their Members of the Hong Kong Institute of Surveyors and the valuations have been incorporated in the financial statements as at 31 March 2006. Knight Frank has recent experience in the locations and categories of properties being valued. The valuations were performed on an open market value basis by reference to the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. As a result of the revaluation, a net gain of $39,838,000 (2005: $40,464,000), and deferred tax thereon of $6,972,000 (2005: $7,081,000), have been included in the consolidated income statement.

**(e)** Certain of the above investment properties with an aggregate carrying value of $454,900,000 (2005: $415,000,000) have been pledged to a bank as security for certain bank loans and facilities granted to the group (note 22).

**(f)** The group leases out investment properties under operating lease arrangements, with leases negotiated for an average period of one to three years. The terms of the leases normally require the tenants to place rental deposits which generally represent one to three month's period rental payment. Upon expiry the lease may be renewed but all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

The group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | The group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Within one year | **32,380** | 22,496 |
| After one year but within five years | **16,989** | 6,262 |
| | **49,369** | 28,758 |

## 13 INTEREST IN SUBSIDIARIES

| | The company | |
|---|---|---|
| | 2006 | 2005 |
| | $'000 | $'000 |
| Unlisted shares, at cost | **197,075** | 197,075 |
| Amounts due from subsidiaries | **210,152** | 201,830 |
| | **407,227** | 398,905 |
| Less: impairment loss | **(46,282)** | (9,075) |
| | **360,945** | 389,830 |

The company has an amount due to a subsidiary of $25,918,000 as at 31 March 2006 (2005: $33,430,000), which is unsecured, interest-free and has no fixed terms of repayment.

Additional impairment losses of $37,207,000 were mainly made for the amount due from Perfect Honour Limited and its subsidiaries. Other details of impairment losses are disclosed in note 32.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the group's consolidated financial statements.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital/ registered capital | Proportion of ownership interest: group's effective interest | held by the company | held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Apex Honour Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | – | 100% | Property investment |
| Dragon Express Investments Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | 100% | – | Investment holding |
| Flourish Global Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | 100% | – | Investment holding |
| Genuine Glory Investments Limited | Hong Kong | $2 | 100% | 100% | – | Property investment |
| Master Profit Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | 100% | – | Investment holding |

*(Expressed in Hong Kong dollars)*

## 13 INTEREST IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital/ registered capital | Proportion of ownership interest: group's effective interest | held by the company | held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Metro Fair Investments Limited | Hong Kong | $2 | 100% | – | 100% | Property holding |
| On Speed Management Limited | Hong Kong | $2 | 100% | 100% | – | Property management |
| Perfect Honour Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | 100% | – | Investment holding |
| Perfect Manor Limited ("Perfect Manor") | Hong Kong | $2 | 100% | – | 100% | Property investment |
| Sino Dynasty Investments Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | 100% | – | Investment holding |
| Rongzhong Group Limited | British Virgin Islands/ Hong Kong | US$100 | 51% | – | 51% | Investment holding |
| Rongzhong Enterprise Management (Shenzhen) Co. Ltd (融眾企業管理(深圳)有限公司)* | The PRC | $96,660,000 | 51% | – | 100% | Management consulting |
| Rongzhong Investment Group Ltd. (融眾投資集團有限公司)# | The PRC | RMB120,000,000 | 51% | – | 100% | Investment holding |
| Guangzhou City Rongzhong Credit Guarantee Co. Ltd. (廣州市融眾信用擔保有限公司)# | The PRC | RMB50,000,000 | 51% | – | 100% | Provision of loan guarantee service |
| Wuhan City Rongzhong Credit Guarantee Co. Ltd. (武漢市融眾信用擔保有限公司)# | The PRC | RMB22,000,000 | 51% | – | 100% | Provision of loan guarantee service |

*(Expressed in Hong Kong dollars)*

## 13 INTEREST IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital/ registered capital | Proportion of ownership interest: group's effective interest | Proportion of ownership interest: held by the company | Proportion of ownership interest: held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Chongqing City Rongzhong Credit Guarantee Co. Ltd. (重慶市融眾信用擔保有限公司)# | The PRC | RMB30,000,000 | 51% | – | 100% | Provision of loan guarantee service |
| Chengdu City Rongzhong Credit Guarantee Co. Ltd. (成都市融眾信用擔保有限公司)# | The PRC | RMB10,000,000 | 51% | – | 100% | Provision of loan guarantee service |
| Hunan Rongzhong Credit Guarantee Co. Ltd. (湖南融眾信用擔保有限公司)# | The PRC | RMB10,000,000 | 51% | – | 100% | Provision of loan guarantee service |
| Jiangsu Rongzhong Credit Guarantee Co. Ltd. (江蘇融眾信用擔保有限公司)# | The PRC | RMB10,000,000 | 51% | – | 100% | Provision of loan guarantee service |
| Hangzhou Rongzhong Guarantee Co. Ltd. (杭州融眾擔保有限公司)# | The PRC | RMB15,000,000 | 51% | – | 100% | Provision of loan guarantee service |
| Wuhan Rongzhong Pawn Shop Co. Ltd. (武漢融眾典當有限公司)# | The PRC | RMB10,000,000 | 51% | – | 100% | Secured lending financing |

* a wholly foreign-owned enterprise established in the PRC

\# a limited liability company established in the PRC

Ordinary shares of Perfect Manor with a carrying amount of $2 have been pledged to a bank for certain bank loans (note 22).

## 14 INTEREST IN ASSOCIATE

| | The group 2006 $'000 | The group 2005 $'000 | The company 2006 $'000 | The company 2005 $'000 |
|---|---|---|---|---|
| Share of net assets | **35,538** | 29,754 | **–** | – |
| Negative goodwill | **–** | (474) | **–** | – |
| | **35,538** | 29,280 | **–** | – |
| Loan to associate | **40,260** | – | **40,260** | – |
| | **75,798** | 29,280 | **40,260** | – |

The group and company have granted an unsecured revolving facility of up to $40,000,000 to GCHL for a term of three years commencing 6 March 2006. The revolving facility is interest bearing at Prime Rate plus 3% per annum. The revolving facility was fully utilised by GCHL as at 31 March 2006.

Particulars of the associate are as below:

| Name of associate | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital/ registered capital | Proportion of ownership interest: group's effective interest | Proportion of ownership interest: held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|
| Goldbond Capital Holdings Limited ("GCHL") * | Incorporated | Hong Kong | $150,000,000 | 20% | 20% | Investment holdings |

* The associate has a financial year ending 31 December.

### Summary financial information on associate

The summary financial information of GCHL and its subsidiaries as extracted from its financial statements with a year end date of 31 December, after adjustments made to realign and to be co-terminous with the group's year end date of 31 March, is set out below:

| | Assets $'000 | Liabilities $'000 | Equity $'000 | Revenues $'000 | Profit/ (loss) $'000 |
|---|---|---|---|---|---|
| **2006** | | | | | |
| **100 per cent** | **455,858** | **(277,902)** | **(177,956)** | **103,369** | **28,917** |
| **Group's effective interest** | **91,172** | **(55,581)** | **(35,591)** | **20,674** | **5,784** |
| **2005** | | | | | |
| 100 per cent | 229,913 | (81,144) | (148,769) | 9,084 | (6,755) |
| Group's effective interest | 45,983 | (16,229) | (29,754) | 1,817 | (1,351) |

## 15 INTEREST IN JOINTLY CONTROLLED ENTITIES

| | The group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Share of net assets | **60,799** | 54,658 |
| Goodwill | **34,668** | 34,668 |
| Amounts due from jointly controlled entities | **11,643** | 50,938 |
| | **107,110** | 140,264 |
| Less: Provision for amount due from jointly controlled entity | **–** | (2,400) |
| | **107,110** | 137,864 |
| Portion classified as current assets | **(11,643)** | (11,315) |
| | **95,467** | 126,549 |

The following list contains only the particulars of jointly controlled entities, which principally affected the results or assets of the group:

| Name of jointly controlled entity | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital/ registered capital | Proportion of ownership interest: group's effective interest | Proportion of ownership interest: held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Ace Intelligent Consultants Limited | Incorporated | British Virgin Islands/ Hong Kong | US$100 | 25% | 25% | Provision of consultancy services |
| Nanjing City Plaza Construction Co. Ltd.* 南京國際商城建設有限公司* ("Nanjing City Plaza") | Equity joint venture | The PRC | US$10,000,000 | 25% | 25% | Investment holdings |

* This jointly controlled entity and its subsidiaries have a financial year ending 31 December.

During the year, the group completed its acquisition of Rongzhong Group Limited, previously a jointly controlled entity, by increasing the equity interest from 40% to 51%. Details of the acquisition are set out in note 32.

## 15 INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

**(a) Goodwill on acquisition of jointly controlled entity**

Goodwill on acquisition of jointly controlled entity is allocated to the group's share of net assets in the Nanjing City Plaza.

The recoverable amount of the cash generating unit ("CGU") is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of two years. Cash flows beyond the two years period are extrapolated using the estimated rates stated below. The growth rate does not exceed the respective long-term average growth rate for the businesses in which the CGU operates.

Key assumptions used for value-in-use calculations:

| | % |
|---|---|
| Growth rate | **3.0** |
| Discount rate | **6.0** |

Management determined the budgeted growth rate based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

The recoverable amount of the CGU is higher than their carrying amount based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

**(b)** The summary financial information of the major jointly controlled entity, Nanjing City Plaza and its subsidiaries, as extracted from its financial statements with a year end date of 31 December, after adjustments made to realign and to be co-terminous with the group's year end date of 31 March, is set out below:

| | **2006** **$'000** | 2005 $'000 |
|---|---|---|
| **Assets and liabilities** | | |
| Non-current assets | **310,996** | 283,525 |
| Current assets | **1,461,429** | 1,129,994 |
| Non-current liabilities | **(738,894)** | (459,563) |
| Current liabilities | **(542,233)** | (485,042) |
| Minority interests | **(249,030)** | (250,306) |
| | **242,268** | 218,608 |
| Income | **–** | – |
| Expenses | **(88)** | (12,820) |
| Loss for the year | **(88)** | (12,820) |

## 15 INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

**(b)** (Continued)

Included in current liabilities and non-current liabilities are bank loans totalling RMB888,382,000 (2005: RMB540,148,000) which are secured by the following items:

(i) Certain cash and bank balances of Nanjing City Plaza and its subsidiaries amounting to RMB253,258,000 (2005: RMB231,100,000) were pledged to banks as security for bank loans totalling RMB250,000,000 (2005: RMB220,000,000).

(ii) Certain bank loans with an aggregate amount of RMB120,405,000 (2005: RMB139,148,000) were subject to a charge over the shares of Nanjing International Group Limited ("Nanjing International Group") in which Nanjing City Plaza owns a 66.96% equity interest. The bank loans were further secured by the entire equity interest of Nanjing City Plaza owned by the group and its other shareholders and the dividends, profits and other monies derived therefrom (2005: RMB124,148,000).

(iii) Certain parts of properties under development with an aggregate carrying value of RMB1,213,850,000 (2005: RMB959,554,000) were used to secure bank loans and other borrowing with an aggregate amount of RMB517,977,000 (2005: RMB181,000,000).

As at 31 March 2006, Nanjing City Plaza and its subsidiaries had capital commitments for construction of properties under development amounting to RMB478,090,000 (equivalent to approximately $459,702,000) (2005: RMB602,856,000 and equivalent to approximately $568,732,000). The group's share of the capital commitments amounted to RMB119,323,000 (equivalent to approximately $114,926,000) (2005: RMB150,714,000 and equivalent to approximately $142,183,000).

During the year ended 31 March 2004, the group entered into a shareholders' loan agreement with Nanjing City Plaza. Pursuant to the agreement, the group advanced a sum of $10,000,000 to Nanjing City Plaza at an interest rate of 2% per annum above the Prime Rate. The amount is unsecured and repayable on demand. At the balance sheet date, the outstanding loan and interest receivable from Nanjing City Plaza amounted to $10,000,000 (2005: $10,000,000) and approximately $1,643,000 (2005: $764,000) respectively.

## 16 INTANGIBLE ASSETS

| | The group and the company | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Club debentures | **3,000** | 3,000 |

The useful life of the above club debentures is indefinite as there is no fixed maturity date for such club debentures.

Certain club debentures are leased out under operating leases. The leases typically run for one year at which time all terms are renegotiated. The total future minimum lease payments under non-cancellable operating leases are receivables within one year of $101,000 (2005: $110,000).

## 17 TRADING SECURITIES

| | The group and the company | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| **Trading securities (at market value)** | | |
| Equity securities listed in Hong Kong | **225** | – |

## 18 PROPERTIES HELD FOR SALE

| | The group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Properties held for sale, at cost | **7,634** | – |

The properties held for sale at 31 March 2006 comprised properties in the Wuhan region, the PRC. It is not the group's intention to hold these properties in the long-term for capital appreciation or rental income.

## 19 TRADE AND OTHER RECEIVABLES

| | The group | | The company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Accounts receivable | **4,613** | 290 | **–** | – |
| Loans to customers | **1,021** | – | **–** | – |
| Prepayments, deposits and other receivables | **23,943** | 8,944 | **84** | 148 |
| | **29,577** | 9,234 | **84** | 148 |

Included in the prepayments, deposits and other receivables are amounts totalling RMB18,800,000 (equivalent to approximately $18,077,000) which represent advances to employees. Such advances are secured by the entire equity interest in a company owned by the employees. This company is incorporated and engaged in mining business in the PRC. The advances are interest bearing at 6% per annum and repayable within one year.

All of the trade and other receivables are expected to be recoverable within one year.

Included in trade and other receivables are accounts receivable (net of impairment losses for doubtful debts) with the following ageing analysis as of the balance sheet date:

| | The group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Current | **3,603** | 221 |
| 1 to 3 months overdue | **721** | 69 |
| More than 3 months overdue | **289** | – |
| | **4,613** | 290 |

The group's credit policy is set out note 31(a).

## 20 SECURITY DEPOSITS

At 31 March 2006, security deposits are placed by the group with banks to secure the group's due performance in relation to the financial services business in the PRC.

## 21 CASH AND CASH EQUIVALENTS

| | The group | | The company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Cash at bank and in hand | **26,292** | 7,306 | **349** | 3,530 |
| Bank deposits | **–** | 6,008 | **–** | 6,008 |
| Cash and cash equivalents in the consolidated cash flow statement | **26,292** | 13,314 | **349** | 9,538 |

Cash and cash equivalents are denominated in the functional currency of the entity to which they relate.

## 22 INTEREST-BEARING BANK LOANS

At 31 March 2006, all the bank loans were secured and were repayable as follows:

| | The group | | The company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **62,074** | 13,412 | **46,500** | – |
| After 1 year but within 2 years | **13,574** | 13,574 | **–** | – |
| After 2 years but within 5 years | **40,722** | 40,722 | **–** | – |
| After 5 years | **96,710** | 110,284 | **–** | – |
| | **151,006** | 164,580 | **–** | – |
| | **213,080** | 177,992 | **46,500** | – |

As at 31 March 2006, a subsidiary borrowed bank loans which are secured by the following:

- certain investment properties of the group with an aggregate carrying value of $454,900,000 (2005: $415,000,000) (note 12(e));
- an assignment of the rental income derived therefrom;
- a charge over the shares of Perfect Manor (note 13), together with the subordination of the company's loans to Perfect Manor; and
- a corporate guarantee of $200,000,000 issued by the company (note 36).

## 22 INTEREST-BEARING BANK LOANS (Continued)

As at 31 March 2006, the group had banking facilities of $116,000,000 (2005: $66,000,000) granted by several banks in Hong Kong, which are secured by the following:

– pledged deposits totalling US$2,597,000 (2005: US$2,563,000), equivalent to approximately $20,261,000 (2005: $20,005,000);

– certain investment properties of the group with an aggregate carrying value of $454,900,000 (2005: $415,000,000) (note 12(e));

– floating charges over interest in subsidiaries and certain assets of Rongzhong Group Limited with an aggregate carrying value of $96,660,000 and $20,162,000 respectively (2005: $Nil).

The banking facility was utilised to the extent of $48,500,000 as at 31 March 2006 (2005: $Nil).

All the bank loans are denominated in Hong Kong dollars.

## 23 AMOUNT DUE TO A RELATED COMPANY

Amount due to a related company is unsecured, interest bearing at rates ranging from Prime Rate to Prime Rate plus 2% per annum and repayable within one year.

## 24 AMOUNTS DUE TO MINORITY SHAREHOLDERS

Amounts due to minority shareholders are unsecured, interest bearing at rates ranging from Prime Rate to Prime Rate plus 2% per annum. The amounts classified as a current liability are repayable within one year and the amounts classified as a non-current liability are repayable after one year.

## 25 OTHER PAYABLES AND ACCRUALS

Other payables and accruals of the group are expected to be settled after more than one year is $5,881,000 (2005: $2,390,000). All of the other payables and accruals of the company are expected to be settled within one year.

## 26 CONVERTIBLE NOTES

On 5 August 2004, the company issued convertible notes with a nominal value of $70,000,000 to a related company which is under common control. The notes are interest free and mature on 5 August 2007. They may be converted into ordinary shares of the company at a conversion price of $0.17 per ordinary share, subject to adjustment upon the occurrence of certain events. Upon full conversion, the notes shall be converted into 411,764,705 ordinary shares of the company.

On 31 December 2004, the company issued convertible notes with a nominal value of $30,000,000 to a related company which has common directors. The notes are interest free and mature on 5 August 2007. They may be converted into ordinary shares of the company at a conversion price of $0.129 per ordinary share, subject to adjustment upon the occurrence of certain events. Upon full conversion, the notes shall be converted into 232,558,140 ordinary shares of the company.

The convertible notes were split into liability and equity components of $77,703,000 and $22,297,000, respectively upon initial recognition by recognising the liability component at its fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost and the equity component is recognised in the capital reserve.

### 27 INCOME TAX IN THE BALANCE SHEET

**(a) Current taxation in the consolidated balance sheet represents:**

| | The group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Provision for Hong Kong Profits Tax for the year | **1,176** | 363 |
| Provisional Profits Tax paid | **(585)** | (674) |
| | **591** | (311) |
| PRC income tax payable | **257** | – |
| Amount of tax payable/(recoverable) | **848** | (311) |

**(b) Deferred tax liabilities recognised:**

Deferred tax liabilities recognised in the consolidated balance sheet represent depreciation allowances in excess of related depreciation and revaluation of certain investment properties. Movements in net deferred tax liabilities during the year are as follows:

| | The group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| At 1 April | **9,583** | 1,972 |
| Charged to the consolidated income statement | **7,417** | 7,611 |
| At 31 March | **17,000** | 9,583 |

An analysis of net deferred tax liabilities is as follows:

| | The group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Depreciation allowances in excess of the related depreciation | **446** | 1 |
| Revaluation surplus of investment properties | **16,554** | 9,582 |
| | **17,000** | 9,583 |

## 27 INCOME TAX IN THE BALANCE SHEET (Continued)

### (c) Deferred tax assets not recognised:

| | The group | | The company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Tax losses | **119,149** | 111,728 | **105,539** | 107,211 |

The group and the company have not recognised deferred tax assets in respect of tax losses as it is not probable that the group and the company will generate sufficient future taxable profits against which the accumulated tax losses may be off-set in the foreseeable future. The tax losses do not expire under the current tax legislation except for an amount of $8,746,000 (2005: $Nil) which will expire in the coming five years.

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants, including the company's directors and other eligible participants of the group. The Scheme became effective on 18 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. On 29 August 2003, amendments were made to give clarity to the Scheme.

The maximum number of shares which may be issued upon exercise of all outstanding options granted but not yet exercised under the Scheme and any other share option scheme shall not in aggregate exceed 30 percent of the shares in issue of the company from time to time. The total number of shares may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme must not in aggregate exceed 10 percent of shares in issue as at the date of approval of the Scheme.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the company for the time being.

The offer of a grant of share options may be accepted no later than 21 days from the date of offer with $1 as consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on the date upon which the option is granted and accepted and ends on the expiry date of the option as may be determined by the directors, which shall not be later than ten years after the date of offer.

The subscription price of a share option is determined by the directors, but may not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares on the date of offer; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the share.

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

**(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:**

| | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Options granted to directors: | | | |
| – on 8 November 2004 | 96,000,000 | 2.2 years from the date of grant | 10 years |
| – on 29 July 2005 | 4,800,000 | 1.4 years from the date of grant | 10 years |
| Options granted to employees: | | | |
| – on 8 November 2004 | 35,000,000 | 2.2 years from the date of grant | 10 years |
| – on 30 May 2005 | 16,000,000 | 1.6 years from the date of grant | 10 years |
| Total share options | 151,800,000 | | |

**(b) The number and weighted average exercise prices of share options are as follows:**

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of options '000** | Weighted average exercise price | Number of options '000 |
| Outstanding at the beginning of the year | **$0.148** | **131,000** | – | – |
| Lapsed during the year | **$0.148** | **(18,000)** | – | – |
| Granted during the year | **$0.135** | **20,800** | $0.148 | 131,000 |
| Outstanding at the end of the year | **$0.146** | **133,800** | $0.148 | 131,000 |
| Exercisable at the end of the year | **N/A** | **–** | N/A | – |

The options outstanding at 31 March 2006 had an exercise price of $0.148, $0.136 or $0.132 (2005: $0.148) and a weighted average remaining contractual life of 8.8 years (2005: 9.7 years).

*(Expressed in Hong Kong dollars)*

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

| | **2006** | 2005 |
|---|---|---|
| **Fair value of share options and assumptions** | | |
| Fair value at measurement date | **\$0.031** | \$0.035 |
| Share price | **\$0.132** | \$0.148 |
| Exercise price | **\$0.135** | \$0.148 |
| Expected volatility (expressed as a weighted average volatility used in the modelling under binomial lattice model) | **48%** | 48% |
| Option life (expressed as a weighted average life used in the modelling under binomial lattice model) | **3.5 years** | 4.2 years |
| Expected dividends | **–** | – |
| Risk-free interest rate (based on Exchange Fund Notes) | **3.65%** | 3.41% |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

## 29 CAPITAL AND RESERVES

### (a) The group

| | | Attributable to equity shareholders of the company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital $'000 | Share premium $'000 | Revaluation reserve $'000 | General reserve $'000 | Capital reserve $'000 | Exchange reserve $'000 | Special capital reserve $'000 | (Accumulated loss)/ retained profits $'000 | Sub total $'000 | Minority interests $'000 | Total equity $'000 |
| At 1 April 2004 | | | | | | | | | | | | |
| – as previously reported | | 173,084 | 97,713 | 3,000 | 6,000 | 5,000 | – | 64,788 | (50,540) | 299,045 | – | 299,045 |
| – prior year adjustments in respect of: HKAS 32: redeemable convertible preference shares issued | | (6,840) | – | – | – | – | – | – | – | (6,840) | – | (6,840) |
| – as restated | | 166,244 | 97,713 | 3,000 | 6,000 | 5,000 | – | 64,788 | (50,540) | 292,205 | – | 292,205 |
| Transfer between reserves | | – | – | – | – | – | – | (64,788) | 64,788 | – | – | – |
| Equity settled share-based transactions (restated) | | – | – | – | – | 852 | – | – | – | 852 | – | 852 |
| Profit for the year (restated) | | – | – | – | – | – | – | – | 27,083 | 27,083 | – | 27,083 |
| At 31 March 2005 (as restated) | | 166,244 | 97,713 | 3,000 | 6,000 | 5,852 | – | – | 41,331 | 320,140 | – | 320,140 |
| At 1 April 2005 | | | | | | | | | | | | |
| – as previously reported | | 173,084 | 97,713 | 3,000 | 6,000 | 5,000 | – | – | 42,183 | 326,980 | – | 326,980 |
| – prior year adjustments in respect of: | | | | | | | | | | | | |
| – HKAS 32: redeemable convertible preference shares issued | 2(a)(i) | (6,840) | – | – | – | – | – | – | – | (6,840) | – | (6,840) |
| – HKFRS 2: equity settled share-based transactions | 2(a)(i) | – | – | – | – | 852 | – | – | (852) | – | – | – |
| – as restated, before opening balance adjustments | | 166,244 | 97,713 | 3,000 | 6,000 | 5,852 | – | – | 41,331 | 320,140 | – | 320,140 |
| – opening balance adjustments in respect of: | | | | | | | | | | | | |
| – HKAS 39: convertible notes | 2(f)(ii) | – | – | – | – | 22,297 | – | – | (3,750) | 18,547 | – | 18,547 |
| – HKAS 39: redeemable convertible preference shares issued | 2(f)(iii) | – | – | – | – | – | – | – | 5,801 | 5,801 | – | 5,801 |
| – HKFRS 3: negative goodwill | 2(d) | – | – | – | – | (5,000) | – | – | 10,360 | 5,360 | – | 5,360 |
| – as restated, after opening balance adjustments | | 166,244 | 97,713 | 3,000 | 6,000 | 23,149 | – | – | 53,742 | 349,848 | – | 349,848 |
| Profit for the year | | – | – | – | – | – | – | – | 3,861 | 3,861 | – | 3,861 |
| Equity settled share-based transactions | | – | – | – | – | 2,109 | – | – | – | 2,109 | – | 2,109 |
| Exchange difference on translation of financial statement of entities outside Hong Kong | | – | – | – | – | – | 1,696 | – | – | 1,696 | – | 1,696 |
| **At 31 March 2006** | | **166,244** | **97,713** | **3,000** | **6,000** | **25,258** | **1,696** | **–** | **57,603** | **357,514** | **–** | **357,514** |

## 29 CAPITAL AND RESERVES (Continued)

### (b) The company

| | Note | Share capital $'000 | Share premium $'000 | Revaluation reserve $'000 | General reserve $'000 | Capital reserve $'000 | Special capital reserve $'000 | (Accumulated loss)/ retained profits $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2004 | | | | | | | | | |
| – as previously reported | | 173,084 | 97,713 | 3,000 | 6,000 | – | 64,788 | (53,654) | 290,931 |
| – prior year adjustments in respect of: | | | | | | | | | |
| HKAS 32: redeemable convertible preference shares issued | | (6,840) | – | – | – | – | – | – | (6,840) |
| – as restated | | 166,244 | 97,713 | 3,000 | 6,000 | – | 64,788 | (53,654) | 284,091 |
| Transfer between reserves | | – | – | – | – | – | (64,788) | 64,788 | – |
| Equity settled share-based transactions (restated) | | – | – | – | – | 852 | – | – | 852 |
| Loss for the year (restated) | | – | – | – | – | – | – | (6,499) | (6,499) |
| At 31 March 2005 (as restated) | | 166,244 | 97,713 | 3,000 | 6,000 | 852 | – | 4,635 | 278,444 |
| At 1 April 2005 | | | | | | | | | |
| – as previously reported | | 173,084 | 97,713 | 3,000 | 6,000 | – | – | 5,487 | 285,284 |
| – prior year adjustments in respect of: | | | | | | | | | |
| – HKAS 32: redeemable convertible preference shares issued | 2(a)(ii) | (6,840) | – | – | – | – | – | – | (6,840) |
| – HKFRS 2: equity settled share-based transactions | 2(a)(ii) | – | – | – | – | 852 | – | (852) | – |
| – as restated, before opening balance adjustments | | 166,244 | 97,713 | 3,000 | 6,000 | 852 | – | 4,635 | 278,444 |
| – opening balance adjustments in respect of: | | | | | | | | | |
| – HKAS 39: convertible notes | 2(f)(ii) | – | – | – | – | 22,297 | – | (3,750) | 18,547 |
| – HKAS 39: redeemable convertible preference shares issued | 2(f)(iii) | – | – | – | – | – | – | 5,801 | 5,801 |
| – as restated, after opening balance adjustments | | 166,244 | 97,713 | 3,000 | 6,000 | 23,149 | – | 6,686 | 302,792 |
| Loss for the year | | – | – | – | – | – | – | (46,164) | (46,164) |
| Equity settled share-based transactions | | – | – | – | – | 2,109 | – | – | 2,109 |
| **At 31 March 2006** | | **166,244** | **97,713** | **3,000** | **6,000** | **25,258** | **–** | **(39,478)** | **258,737** |

## 29 CAPITAL AND RESERVES (Continued)

### (c) Share capital

| | **2006** Number of shares '000 | **2006** Amount $'000 | 2005 Number of shares '000 | 2005 Amount $'000 |
|---|---|---|---|---|
| **Ordinary shares, authorised:** | | | | |
| Ordinary shares of $0.10 each | **25,000,000** | **2,500,000** | 25,000,000 | 2,500,000 |
| **Ordinary shares, issued and fully paid:** | | | | |
| Ordinary shares of $0.10 each | **1,662,440** | **166,244** | 1,662,440 | 166,244 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

| | **2006** Number of shares '000 | **2006** Amount $'000 | 2005 Number of shares '000 | 2005 Amount $'000 |
|---|---|---|---|---|
| **Redeemable convertible preference shares, authorised, issued and fully paid:** | | | | |
| Preference shares of $0.10 each | **68,400** | **6,840** | 68,400 | 6,840 |

Redeemable preference shares do not carry the right to vote. Based on their terms and conditions, the redeemable preference shares were split into liability and equity components. The liability component has been presented as liabilities in the balance sheet while the equity component has been included in the retained earnings since the conversion rights lapsed in the prior year. Further details of these terms are set out in note 30.

*(Expressed in Hong Kong dollars)*

## 29 CAPITAL AND RESERVES (Continued)

### (d) Terms of unexpired and unexercised share options at balance sheet date

| Exercise period | Exercise price | 2006 Number | 2005 Number |
|---|---|---|---|
| 1 January 2007 – 7 November 2014 | $0.148 | **113,000,000** | 131,000,000 |
| 1 January 2007 – 28 July 2015 | $0.132 | **4,800,000** | – |
| 1 January 2007 – 29 May 2015 | $0.136 | **16,000,000** | – |
| | | **133,800,000** | 131,000,000 |

Each option entitles the holder to subscribe for one ordinary share in the company. Further details of these options are set out in note 28 to the financial statements.

### (e) Nature and purpose of reserves

*(i) Share premium*

The application of the share premium account is governed by Sections 48B of the Hong Kong Companies Ordinance.

*(ii) Capital reserve*

The capital reserve comprises the following:

– the fair value of the actual or estimated number of unexercised share options granted to directors and other eligible participants of the company recognised in accordance with the accounting policy adopted for share-based payments set out in note 1(s)(ii); and

– the value of the unexercised equity component of convertible notes issued by the company recognised in accordance with the accounting policy adopted for convertible notes set out in note 1(n).

*(iii) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

*(iv) Special capital reserve*

The special capital reserve of $64,788,000 was transferred to the retained profits of the company during the year ended 31 March 2004 upon the fulfilment of conditions set out in the court order issued by the High Court of Hong Kong in June 2003.

## 29 CAPITAL AND RESERVES (Continued)

### (e) Nature and purpose of reserves (Continued)

*(v) Retained profits*

Included in the retained profits as at 31 March 2006 was a loss of $3,252,000 (2005: $3,456,000) and profit of $4,433,000 (2005 loss: $1,351,000) attributable to the group's jointly controlled entities and associate respectively.

*(vi) Distributability of reserves*

No reserve is available for distributable to equity shareholders of the company at 31 March 2006 (2005 (restated): $4,635,000).

## 30 REDEEMABLE CONVERTIBLE PREFERENCE SHARES

At 31 March 2006, 68,400,000 (2005: 68,400,000) preference shares were in issue. The preference shares carry neither right to vote nor right to dividend distributions to the holders. The conversion rights attached to the preference shares lapsed with no conversion during the year ended 31 March 2005.

Pursuant to the terms and conditions of the preference shares, the preference shares may be redeemed by the holders of the preference shares at any time subsequent to 50 years after the date of issue at a redemption value of $10.00 per preference share.

The preference shares were split into liability and equity components of $811,000 and $6,029,000, respectively upon initial recognition by recognising the liability component at its fair value and attributing to the equity component the residual amount. The liability component is carried at amortised cost and the equity component has been included in the retained earnings since the conversion rights lapsed during the year ended 31 March 2005.

## 31 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

### (a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables and loans to associate. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all major customers requiring credit over a certain amount.

## 31 FINANCIAL INSTRUMENTS (Continued)

### (a) Credit risk (Continued)

In respect of rental receivables from investment properties, credit evaluations are performed on all tenants and these receivables are due within 30 days from the date of invoicing. For debtors with balances that are more than 45 days overdue, appropriate legal action will be taken by the company if necessary.

In respect of loan guarantee services in the PRC, the group has set up a credit team in each location responsible for the evaluation of customers' credit rating to ensure that all customers have healthy financial backgrounds and adequate repayment abilities. Management has set up the credit limits which are subject to the discretionary power of the general managers of each location. Any further extension of credit beyond these approval limits has to be first approved by senior management and then by the directors of Rongzhong Group Limited. The credit teams are also required to take follow-up action where customers have defaulted on the repayment of loans to banks. The group reviews the receivable amount of all trade and other receivables from time to time to ensure that adequate impairment losses are provided for at the balance sheet date.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The group's loan guarantee service business is to provide guarantees to banks or other parties in favour of customers which exposes the group to credit risk. These contingent liabilities have been disclosed in note 36. The management assess and closely monitor the repayment ability of customers.

Except for the financial guarantees given by the group as disclosed in note 36, the group does not provide any other guarantees which would expose the group to credit risk.

### (b) Liquidity risk

The group closely monitors its liquidity and financial resources to ensure that a healthy financial position is maintained such that cash inflows from operating activities together with undrawn committed banking facilities are sufficient to meet the requirements for loan repayments, daily operational needs, capital expenditure as well as potential business expansion and development.

Major operating companies of the group arrange their own financing to meet specific requirements. The group's other subsidiaries are mainly financed by the company's capital base.

The group reviews its strategy from time to time to ensure that cost-efficient funding is available to cater for the unique operating environment of each subsidiary.

## 31 FINANCIAL INSTRUMENTS (Continued)

### (c) Interest rate risk

*Effective interest rates and repricing analysis*

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

**The group**

| | 2006 | | | | | | 2005 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Effective interest rate % | Total $'000 | One year or less $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 | Effective interest rate % | Total $'000 | One year or less $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 |
| **Repricing dates for assets/(liabilities) which reprice before maturity** | | | | | | | | | | | | |
| Interest-earning cash and cash equivalents | 0.61% | 24,705 | 24,705 | – | – | – | 0.25% | 9,720 | 9,720 | – | – | – |
| Pledged deposits | 0.41% | 20,261 | 20,261 | – | – | – | 2.09% | 20,005 | 20,005 | – | – | – |
| Security deposits | 0.46% | 18,848 | 18,848 | – | – | – | – | – | – | – | – | – |
| Loan to associate | 10.84% | 40,260 | 40,260 | – | – | – | – | – | – | – | – | – |
| Interest-bearing bank loans | 5.21% | (213,080) | (213,080) | – | – | – | 2.04% | (177,992) | (177,992) | – | – | – |
| Amounts due to minority shareholders | 8.34% | (18,934) | (18,934) | – | – | – | – | – | – | – | – | – |
| Amount due to a related company | 9.61% | (26,302) | (26,302) | – | – | – | – | – | – | – | – | – |
| Amount due from jointly controlled entities | 10.00% | 11,643 | 11,643 | – | – | – | 5.69% | 50,387 | 50,387 | – | – | – |
| | | (142,599) | (142,599) | – | – | – | | (97,880) | (97,880) | – | – | – |
| **Maturity dates for assets/(liabilities) which do not reprice before maturity** | | | | | | | | | | | | |
| Other interest-bearing receivable | 6.00% | 18,077 | 18,077 | – | – | – | – | – | – | – | – | – |
| Convertible notes | 8.75% | (88,904) | – | (88,904) | – | – | 8.75% | (100,000) | – | – | (100,000) | – |
| Redeemable convertible preference shares | 13.97% | (1,194) | – | – | – | (1,194) | 13.97% | (6,840) | – | – | – | (6,840) |
| | | (72,021) | 18,077 | (88,904) | – | (1,194) | | (106,840) | – | – | (100,000) | (6,840) |

## 31 FINANCIAL INSTRUMENTS (Continued)

### (c) Interest rate risk (Continued)

*Effective interest rates and repricing analysis* (Continued)

**The company**

| | 2006 | | | | | | 2005 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Effective interest rate % | Total $'000 | One year or less $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 | Effective interest rate % | Total $'000 | One year or less $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 |
| **Repricing dates for assets/(liabilities) which reprice before maturity** | | | | | | | | | | | | |
| Interest-earning cash and cash equivalents | 2.78% | 36 | 36 | – | – | – | 0.25% | 6,032 | 6,032 | – | – | – |
| Pledged deposits | 0.41% | 20,261 | 20,261 | – | – | – | 2.09% | 20,005 | 20,005 | – | – | – |
| Loan to associate | 10.84% | 40,260 | 40,260 | – | – | – | – | – | – | – | – | – |
| Interest-bearing bank loans | 5.01% | (46,500) | (46,500) | – | – | – | – | – | – | – | – | – |
| | | 14,057 | 14,057 | – | – | – | | 26,037 | 26,037 | – | – | – |
| **Maturity dates for assets/(liabilities) which do not reprice before maturity** | | | | | | | | | | | | |
| Convertible notes | 8.75% | (88,904) | – | (88,904) | – | – | 8.75% | (100,000) | – | – | (100,000) | – |
| Redeemable convertible preference shares | 13.97% | (1,194) | – | – | – | (1,194) | 13.97% | (6,840) | – | – | – | (6,840) |
| | | (90,098) | – | (88,904) | – | (1,194) | | (106,840) | – | – | (100,000) | (6,840) |

### (d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2006 and 2005.

## 31 FINANCIAL INSTRUMENTS (Continued)

### (e) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

*(i) Securities*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

*(ii) Interest-bearing loans and borrowings*

Fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

## 32 ACQUISITION OF SUBSIDIARIES

On 27 June 2005, the group entered into an acquisition agreement (the “Acquisition Agreement”) with a shareholder of Rongzhong Group Limited, a jointly controlled entity of the group. Pursuant to the Acquisition Agreement, the group acquired an additional 11% equity interest in Rongzhong Group Limited at a consideration of US$11 (equivalent to approximately $86). Immediately after the completion of the Acquisition Agreement, the group’s equity interest in Rongzhong Group Limited increased from 40% to 51%. The acquisition was completed on 7 July 2005.

The principal activity of Rongzhong Group Limited is the provision of loan guarantee services in the PRC.

On 31 October 2005, Rongzhong Group Limited completed the acquisition of the entire equity interest in 武漢市融眾信用擔保有限公司 (Wuhan City Rongzhong Credit Guarantee Co., Limited (“Wuhan Rongzhong”)), a company incorporated in the PRC, at a consideration of RMB22,041,000 (equivalent to approximately $21,193,000). The principal activity of Wuhan Rongzhong is the provision of loan guarantee services in the PRC.

The acquisitions contributed revenue of $8,091,000 and a net loss of $27,976,000 to the group for the period from the acquisition dates to 31 March 2006. If the acquisitions had occurred on 1 April 2005, the group’s revenue would have been $40,650,000, and profit after taxation would have been $3,861,000.

## 32 ACQUISITION OF SUBSIDIARIES (Continued)

The group considered that at each of the date of acquisitions, the carrying amounts of the acquirees' assets and liabilities were not materially different from their fair values. The assets and liabilities arising from the acquisitions are as follows:

**Net assets/(liabilities) acquired:**

| | Rongzhong Group Limited $'000 | Wuhan Rongzhong $'000 | Total $'000 |
|---|---|---|---|
| Cash and cash equivalents | 13,269 | 13,473 | 26,742 |
| Plant and equipment | 2,747 | 1,894 | 4,641 |
| Trade and other receivables | 35,741 | 11,673 | 47,414 |
| Security deposits | 5,107 | 4,594 | 9,701 |
| Other payables and accruals | (10,009) | (475) | (10,484) |
| Amount due to shareholders | (60,101) | (13,422) | (73,523) |
| Net identifiable (liabilities)/assets | (13,246) | 17,737 | 4,491 |
| Share of net liabilities attributable to the group upon acquisition (11%) | (1,457) | | |
| Net liabilities transferred from minority interests (49%) | (6,491) | | |
| Share of net liabilities attributable to the group on the purchase of the initial 40% equity interest | (6) | | |
| Net (liabilities)/assets acquired | (7,954) | 17,737 | 9,783 |
| Goodwill arising on consolidation | 7,954 | 3,457 | 11,411 |
| Total purchase price paid, satisfied in cash | – | 21,194 | 21,194 |
| Less: Cash of subsidiaries acquired | (13,269) | (13,473) | (26,742) |
| Net cash (inflow)/outflow in respect of the purchase of subsidiaries | (13,269) | 7,721 | (5,548) |

The above goodwill is primarily attributable to the potential profitability of the loan guarantee business in the PRC and the expertise of the management team.

## 32 ACQUISITION OF SUBSIDIARIES (Continued)

The recoverable amount of the CGU, loan guarantee business (Rongzhong Group Limited including Wuhan Rongzhong), is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of one year. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

| | % |
|---|---|
| Growth rate | **15.0** |
| Discount rate | **9.0** |

Management determined the budgeted growth rate based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

Based on the recoverable amount, the carrying amount of goodwill was considered to be impaired. Accordingly, the carrying amount of goodwill of $11,411,000 has been written off to the consolidated income statement in the current year.

## 33 COMMITMENTS

(a) Capital commitments outstanding of the group at 31 March 2006 not provided for in the financial statements were as follows:

| | **2006** **$'000** | 2005 $'000 |
|---|---|---|
| **The group** | | |
| Contracted, but not provided for | – | 15,210 |
| **The group's share of capital commitments of a jointly controlled entity** | | |
| Contracted, but not provided for | | |
| – Construction of properties under development | **114,926** | 142,183 |
| – Acquisition of certain subsidiaries in the PRC | – | 13,962 |
| | **114,926** | 156,145 |

## 33 COMMITMENTS (Continued)

(b) At 31 March 2006, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | The group | | The company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **4,673** | 41 | **816** | 41 |
| After 1 year but within 5 years | **7,891** | – | **52** | – |
| | **12,564** | 41 | **868** | 41 |

The group and the company are the lessees in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease upon expiry when all terms are renegotiated.

None of the leases includes contingent rentals.

**The group's share of operating leases commitment of the jointly controlled entities**

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Within 1 year | **426** | 755 |
| After 1 year but within 5 years | **103** | 1,798 |
| Over 5 years | **–** | 13 |
| | **529** | 2,566 |

## 34 RETIREMENT BENEFIT SCHEME

The group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the group and administered by an independent trustee. Under the MPF Scheme, the group and its employees are each required to make a contribution to the MPF Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000 (the "Cap"). The amounts in excess of the Cap are contributed to the MPF Scheme by both employers and employees as voluntary contributions. Mandatory contributions to the MPF Scheme are vested to the employees.

Employees engaged by the group outside Hong Kong are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

## 35 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions.

### (a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the company's directors as disclosed in note 7 and certain of the group's highest paid employees as disclosed in note 8, is as follows:

| | **2006**<br>**$'000** | 2005<br>$'000 |
|---|---|---|
| Directors' fees | **295** | 422 |
| Salaries and other short-term employee benefits | **5,496** | 5,669 |
| Contributions to defined contribution retirement plans | **58** | 71 |
| Equity compensation benefits | **1,209** | 678 |
| | **7,058** | 6,840 |

Total remuneration is included in "staff costs" (see note 5(b)).

### (b) Transactions with related parties

| | Note | **2006**<br>**$'000** | 2005<br>$'000 |
|---|---|---|---|
| Issue of convertible notes | 26 | **–** | 100,000 |
| Disposal of fixed assets | | **–** | 141 |
| Legal and professional fee paid to related companies | | **341** | 850 |
| Rental expense paid to a related company | | **805** | 531 |
| Loan arrangement fee from a jointly controlled entity | | **879** | – |
| Interest income from jointly controlled entities | 15 | **1,419** | 1,252 |
| Interest expense paid to a related company | 23 | **1,508** | 101 |

## 35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties (Continued)

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| Loan to associate | 14 | **40,000** | – |
| Interest income from associate | 14 | **260** | – |
| Impairment loss on amount due from a jointly controlled entity | 15 | **2,888** | 2,400 |
| Acquisition of subsidiaries from a venturer of a jointly controlled entity | | | |
| – purchase price paid | 32 | **–** | – |
| – impairment of goodwill | 32 | **7,954** | – |

## 36 CONTINGENT LIABILITIES

At the balance sheet date, there were contingent liabilities in respect of the following:

(i) The company has given a guarantee of US$3,750,000 (equivalent to approximately $29,250,000) in respect of banking facilities granted to a jointly controlled entity, the group also pledged its attributable equity interests in its jointly controlled entities for such banking facilities as disclosed in note 15(b)(ii).

(ii) The company has given a guarantee to a bank to secure a bank loan as disclosed in note 22.

(iii) During the current year, the company entered into funding, allocation and distribution agreements in respect of a new bank loan of RMB148,977,000 (equivalent to approximately $143,247,000) borrowed by a jointly controlled entity.

Pursuant to such agreements, the company has taken on the funding undertakings and buy-back undertakings, details of which were set out in the company's circular dated 14 June 2005. All these undertakings are in aggregate subject to a maximum of 16.7% of the outstanding amounts and any other associated costs from time to time in respect of such loan, under which the company will, pursuant to the agreements, purchase the residential units in the North Tower of Phase 1 of Nanjing International Center at RMB5,000 per square metre or, if required by the bank, arrange a refinancing facility.

(iv) The group has contingent liabilities of RMB142,397,000 (equivalent to approximately $136,920,000) in relation to the provision of the guarantee services in the PRC.

## 37 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of changes in accounting policies. Further details are disclosed in note 2.

## 38 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 15, 27(c), 28, 31(e) and 32 contain information about the assumptions and their risk factors relating to goodwill impairment, deferred tax assets not recognised, fair value of share options granted and the fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

**(a) Estimate of fair value of investment properties**

The fair value of investment properties have been determined with reference to independent valuations. The best evidence of fair value is the current price in an active market for similar lease and other contracts. The group employed an independent firm of professional surveyors to determine the open market values for the investment properties of the group. These valuations require the use of judgement and estimates, and the use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts which would affect the financial results of the group.

**(b) Estimate of fair value of convertible notes and redeemable convertible preference shares**

The fair value of the liability component of convertible notes and redeemable convertible preference shares is calculated using the market interest rate for an equivalent non-convertible bond. The residual amounts represent the equity component. The group employed an independent professional valuer to determine the value for the convertible notes and redeemable convertible preference shares. The valuations require the use of judgement and estimates, and the use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts which would affect the financial results of the group.

**(c) Impairment losses for bad and doubtful debts**

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer.

Any increase or decrease in the impairment losses would affect the net profit in future years.

**(d) Recognition of deferred tax assets**

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the group and require significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

*(Expressed in Hong Kong dollars)*

## 39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 MARCH 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ending 31 March 2006 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the group's operations and financial statements:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HK(IFRIC) 4 | Determining whether an arrangement contains a lease | 1 January 2006 |
| Amendment to HKAS 1 | Presentation of financial statements: capital disclosures | 1 January 2007 |
| Amendments to HKAS 39 | Financial instruments: recognition and measurement: | |
| | – The fair value option | 1 January 2006 |
| | – Financial guarantee contracts | 1 January 2006 |
| Amendment to HKAS 21 | The effects of changes in foreign exchange rates | |
| | – Net investment in a foreign operation | 1 January 2006 |
| HKFRS 7 | Financial instruments: disclosures | 1 January 2007 |

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the group's financial statements for the period beginning 1 April 2006.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application but the group is not yet in a position to state whether these amendments will have a significant impact on its results of operations and financial position.