

Notes to the Financial Statements

For the year ended 31 March 2003

(Expressed in Hong Kong dollars)

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 26 October 2001. The directors consider the ultimate holding company at 31 March 2003 to be Climax Park Limited (“Climax Park”), a company incorporated in the British Virgin Islands (the “BVI”).

Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), on 25 April 2002, the Company became the holding company of the companies now comprising the group. The Reorganisation principally involved the exchange of fully-paid shares of the Company with all the issued shares of Sino Prosper Group Limited.

The Company and its subsidiaries (the “Group”) resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the years ended 31 March 2002 and 2003 have been prepared on the basis as if the Company had always been the holding company of the Group. The directors consider that this basis provides meaningful information for shareholders as regards the historical performance of the companies now comprising the Group.

Details of the Reorganisation are set out in the prospectus (the “Prospectus”) issued by the Company dated 30 April 2002.

The shares of the Company were listed on the Stock Exchange on 15 May 2002.

2. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the principal activities of the Company and its subsidiaries during the year.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties as explained in note 3(c) below, and in accordance with all Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

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(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES (continued)

In the current year, the Group has adopted the following SSAPs which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 34 (revised)	: Employee benefits

The effects of adopting these new SSAPs and a summary of the principal accounting policies followed by the Group in the preparation of the financial statements are set out below:

a. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Group, directly or indirectly, controls more than half of the voting power or holds more than half of the issued share capital or controls the composition of the board of directors or equivalent governing body. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Except for the Reorganisation which was completed on 25 April 2002, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

a. **Basis of consolidation** *(continued)*

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case it is stated at fair value with changes in fair value recognised in the income statement as they arise. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

b. **Associate**

An associate is an entity, not being a subsidiary or jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

In the Company's balance sheet, investments in associates are stated at cost less any provision for impairment losses. Such provision is determined and made for each associate individually. The results of associates are accounted for by the Company to the extent of dividends received and receivable.

c. **Investment properties**

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

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

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Notes to the Financial Statements

For the year ended 31 March 2003

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES (continued)

d. Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Motor vehicles	: 30%
Furniture, fixtures and equipment	: 20%

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

e. Properties under development

Properties under development are stated at cost less allowances for any possible losses and provision for impairment losses. Cost includes all development expenditure, interest charges and other direct costs attributable to such properties.

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to completion, and is limited to the recoverable amount after due allowance for contingencies.

Properties under development which have either been pre-sold or are intended for sale are classified as current assets.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

f. **Completed properties held for sale**

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, interest charges and other direct costs attributable to such properties until they reach a marketable condition. Net realisable value is estimated by the directors based on prevailing market conditions.

g. **Impairment**

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

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

h. **Current assets and liabilities**

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

i. **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 cash flow statement.

Notes to the Financial Statements

For the year ended 31 March 2003

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3. PRINCIPAL ACCOUNTING POLICIES (continued)

j. Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow of economic resources occurs so that outflow is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

k. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

l. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

m. Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements.

The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

n. Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are settled at their present values.

(ii) The Group participates in the mandatory provident fund for its employees in Hong Kong. Contributions to the fund by the Group and the employees are calculated as a percentage of the employees' basic salaries. The retirement benefit cost charged to the income statement represents contributions payable by the Group to the fund. The Group's contributions to the fund are expensed as incurred and the Group's voluntary contributions are reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. The assets of the fund are held separately from those of the Group in an independently administered fund.

The Group's contributions to a local municipal government retirement scheme in the People's Republic of China (the "PRC") are charged to the income statement as incurred while the local municipal government in the PRC undertakes to assume the retirement obligations of all existing and future retirees of the qualified staff in the PRC.

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

Notes to the Financial Statements

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(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES (continued)

n. Employee benefits (continued)

- (iv) 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.

o. Revenue recognition

- (i) Sales of completed properties held for sale are recognised upon the execution of legally binding sales agreements.
- (ii) Sales of properties under development are recognised upon the execution of legally binding sales agreements provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out in “Properties under development”.
- (iii) Rental income and building management fee income under operating leases are recognised in the period on a straight-line basis over the terms of the leases.
- (iv) Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding and at the interest rate applicable.

p. Foreign currencies

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

On consolidation, the balance sheets of the overseas operations which are denominated in currencies other than the Hong Kong dollars are translated at the rates ruling at the balance sheet date whilst the income statements are translated at the average rates for the year. All exchange differences arising on consolidation are dealt with in translation reserve.

q. Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

r. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. TURNOVER AND REVENUE

Turnover represents proceeds received and receivable from the sales of properties in the PRC to outside customers and rental and building management fee income received and receivable from leasing of investment properties less business tax and discounts, if any, during the year, and is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover:		
Proceeds from sales of properties	25,416	119,282
Rental and building management fee income from leasing of investment properties	297	–
	<u>25,713</u>	<u>119,282</u>
Less: Business tax	(1,286)	(5,964)
	<u>24,427</u>	<u>113,318</u>
Other revenue:		
Bank interest income	16	135
Sundry income	39	19
	<u>55</u>	<u>154</u>
Total revenue	<u>24,482</u>	<u>113,472</u>

Business tax is calculated at 5% on the proceeds received and receivable from the sales of properties and on the rental and building management fee income received and receivable from leasing of investment properties during the year.

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5. SEGMENT INFORMATION

No business segment information (primary segment information) has been disclosed for the years presented as the Group is operating in a single business segment which is property development and investment. Substantially all the operations of the Group are located in the PRC and therefore no geographical segment information has been disclosed for the years presented.

6. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/Profit from operations has been arrived at after charging:

	2003 HK\$'000	2002 HK\$'000
Directors' remuneration (note 12)	997	584
Other staff costs (excluding directors):		
Salaries and allowances	1,347	739
Retirement benefit scheme contributions	76	32
	<u>2,420</u>	<u>1,355</u>
Less: Amounts capitalised in properties under development	<u>–</u>	<u>(243)</u>
Total staff costs	<u>2,420</u>	<u>1,112</u>
Auditors' remuneration	320	355
Depreciation	85	72
Management fee	1,242	1,922
Operating lease payments in respect of land and buildings	1,077	283
Net exchange losses	<u>91</u>	<u>15</u>

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank borrowings wholly repayable within one year	6,000	5,077
Less: Amounts capitalised in properties under development	–	(4,231)
	<u>6,000</u>	<u>846</u>

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the year is based on the net loss attributable to shareholders of approximately HK\$9,665,000 (2002: net profit of approximately HK\$27,766,000) and on the weighted average number of 800,000,000 ordinary shares (2002: 670,000,000 ordinary shares) in issue or deemed to be in issue throughout the years presented on the assumption that the Reorganisation has been completed on 1 April 2001.

Diluted (loss)/earnings per share have not been disclosed as there were no potential ordinary shares outstanding during the years.

9. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
The PRC income tax	–	16,689
Land Appreciation Tax (“LAT”)	–	7,552
	<u>–</u>	<u>24,241</u>

No provision for Hong Kong Profits Tax has been made as there was no assessable profit derived from or arising in Hong Kong.

Notes to the Financial Statements

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9. TAXATION (continued)

The PRC income tax is calculated at a rate of 33% on the assessable profits arising in the PRC for both years.

Under the Implementation Regulations on the Provisional Regulations of the PRC on LAT issued on 27 January 1995, all added value from transfer of real estate in the PRC from 1 January 1994 is subject to LAT at progressive rates up to 60% of the amount of property value appreciation after deduction of certain costs and expenses. An exemption to LAT is applicable to first hand sales contracts entered into on or before 31 December 2000 in respect of those property development contracts or related project proposals signed or approved before 1 January 1994 and whose capital for the development has been injected according to the relevant property development contracts. The Group's properties under development was approved in 1993, accordingly, there was no LAT exposure to the Group for the period from 1 April 1998 to 31 December 2000.

All added value arising from sales contracts of the properties under development entered into subsequent to 31 December 2000 is subject to LAT at progressive rates up to 60% of the amount of property value appreciation after deduction of certain costs and expenses.

Deferred taxation has not been provided for in the financial statements as the amounts involved are not significant (2002: Nil).

10. DIVIDENDS

No interim dividend was paid during the year (2002: Nil). The directors do not recommend the payment of any final dividend for the year (2002: Nil).

11. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated net loss attributable to shareholders of approximately HK\$9,665,000 (2002: net profit of approximately HK\$27,766,000) includes a loss of approximately HK\$3,672,000 (2002: Nil) which has been dealt with in the financial statements of the Company.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Directors		
Directors' fees:		
Executive	—	—
Independent non-executive	—	—
	<hr/>	<hr/>
	—	—
	<hr/>	<hr/>
Other emoluments to executive directors:		
Salaries and allowances	965	572
Retirement benefit scheme contributions	32	12
	<hr/>	<hr/>
	997	584
	<hr/>	<hr/>
Total directors' remunerations	<u>997</u>	<u>584</u>

The aggregate emoluments of each of the directors during the year were less than HK\$1,000,000.

Notes to the Financial Statements

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12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

Employees

The five highest paid individuals included three directors (2002: two directors) whose emoluments are set out above. The emoluments of the remaining two (2002: three) highest paid individuals for the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	335	406
Retirement benefit scheme contributions	10	—
	<u>345</u>	<u>406</u>

The aggregate emoluments of each of the employees during the year were less than HK\$1,000,000.

There were no arrangements under which the directors have waived or agreed to waive any emoluments. No emoluments were paid by the Group to the respective five highest paid employees, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

13. RETIREMENT BENEFIT SCHEMES

Effective from 14 March 2002, the Group has implemented a mandatory provident fund scheme (the "MPF Scheme") in accordance with the Mandatory Provident Fund Schemes Ordinance in Hong Kong. Both the Group (the employer) and its employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions of employer and employees are subject to a cap of monthly earnings of HK\$20,000 and thereafter contributions are voluntary. The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

During the year, the Group contributed to a local Municipal Government retirement scheme to all qualified employees in the PRC. The contributions to such scheme which have been charged to the consolidated income statement represent contributions paid or payable by the Group at rates specified in the rules of the scheme.

During the year, there are no benefits forfeited in accordance with the respective schemes' rules which have been used to reduce the employer's contributions.

14. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 14 May 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days from the date of the offer of grant of the share option. Options may be exercised at any time not later than 10 years from the date of grant of the share option. The exercise price is determined by the directors of the Company, shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

No options has been granted and/or exercised since the adoption of the Scheme.

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15. INVESTMENT PROPERTIES

	2003 HK\$'000	2002 HK\$'000
At 1 April 2002/2001	95,800	–
Transferred from properties under development	–	49,111
Transferred to completed properties held for sale	(18,678)	–
Revaluation (decrease)/increase	(622)	46,689
	<u>76,500</u>	<u>95,800</u>
At 31 March 2003/2002	<u>76,500</u>	<u>95,800</u>

Investment properties were valued at their open market value at 31 March 2003 by an independent firm of surveyor, Messrs Castores Magi Surveyors Limited, who have among their staff Registered Professional Surveyors, on an open market existing use basis. This valuation results in a revaluation decrease of approximately HK\$622,000 (2002: an increase of approximately HK\$46,689,000) which has been taken to the investment properties revaluation reserve. The carrying amount of investment properties comprises land in the PRC under medium-term lease.

The Group's investment properties have been pledged to secure banking facilities granted to the Group.

As at the balance sheet date, the Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	582	–
In the second to fifth year inclusive	241	–
	<u>823</u>	<u>–</u>

16. PLANT AND EQUIPMENT

	Motor vehicles <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
At 1 April 2002	347	170	517
Additions	—	92	92
	<hr/>	<hr/>	<hr/>
At 31 March 2003	347	262	609
	<hr/>	<hr/>	<hr/>
Accumulated depreciation:			
At 1 April 2002	243	116	359
Charge for the year	57	28	85
	<hr/>	<hr/>	<hr/>
At 31 March 2003	300	144	444
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 March 2003	47	118	165
	<hr/>	<hr/>	<hr/>
At 31 March 2002	104	54	158
	<hr/>	<hr/>	<hr/>

17. INVESTMENTS IN SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	78	—
Amounts due from subsidiaries	20,599	—
	<hr/>	<hr/>
	20,677	—
	<hr/>	<hr/>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts are unlikely to be repaid within one year and are therefore classified as non-current.

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17. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries at 31 March 2003 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Access Power Group Limited	BVI	US\$1	–	100%	Provision for marketing and subcontracting services
Better Best Limited	BVI	US\$1	–	100%	Investment holding
Dalian Asia Finance Property Management Consultant Services Co., Ltd. (note (a)) 大連亞太物業行有限公司	PRC	US\$105,000	–	95.2%	Provision for property management services
Dalian Dong Gang Real Estate Development Co., Ltd. (note (b)) 大連東港房地產開發有限公司	PRC	US\$5,000,000	–	95%	Property development
Joint Profit Group Limited 駿港集團有限公司	Hong Kong	HK\$2	–	100%	Provision of administrative services
Lighting Charm Limited	BVI	US\$2	–	100%	Investment holding
Sino Prosper Group Limited	BVI	US\$10,000	100%	–	Investment holding
Sino Prosper Group Investments Limited 中盈集團投資有限公司	Hong Kong	HK\$2	–	100%	Inactive
World Giant Investments Holdings Limited	BVI	US\$1	–	100%	Investment holding

Notes:

- (a) Dalian Asia Finance Property Management Consultant Services Co., Ltd. was established on 12 June 2000 as a Sino-foreign equity joint venture enterprise under the laws of the PRC with limited liability and is currently owned as to 95.2% by World Giant Investments Holdings Limited.
- (b) Dalian Dong Gang Real Estate Development Co., Ltd. was established on 11 August 1992 and became a Sino-foreign equity joint venture enterprise under the laws of the PRC with limited liability in August 2000 and is currently owned as to 95 % by Better Best Limited.
- (c) The subsidiaries as shown in notes (a) and (b) above have a financial year end of 31 December. Their financial statements cannot be co-terminus with that of the Company for the reason of their need to comply with the regulations of the PRC.

18. INVESTMENT IN AN ASSOCIATE

Details of the Group's associate at 31 March 2003 are as follows:

Name of associate	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest indirectly held by the Group	Principal activity
Bekwin International Ltd	BVI	US\$100	29%	Investment holding

	2003 HK\$'000	2002 HK\$'000
(a) Investment in an associate		
Unlisted shares, at cost	—	—
Amount due from an associate	50	—
	<hr/>	<hr/>
Amount as shown in the consolidated balance sheet	50	—
Share of post-acquisition results as shown in note (b)	—	—
	<hr/>	<hr/>
	50	—
	<hr/>	<hr/>

During the year under review, a Company's wholly owned subsidiary, Lighting Charm Limited, acquired 29% of the issued share capital of Bekwin International Ltd ("Bekwin"), a company incorporated in the BVI with limited liability, with a consideration of US\$29, equivalent to approximately HK\$226, in which Lighting Charm Limited is a subscriber and a director of Bekwin. Bekwin has not commenced any business during the year, accordingly, its operating results as shown in note (b) below are not equity accounted for by the Group as, in the opinion of the directors, the amount is not significant to the Group.

The amount due from the associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the amount is unlikely to be repaid within one year and is therefore shown as non-current.

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18. INVESTMENT IN AN ASSOCIATE (continued)

	2003 HK\$'000	2002 HK\$'000
(b) Results of the associate		
Share of loss on ordinary activities before taxation	28	—
Share of taxation	—	—
	<hr/>	<hr/>
Net loss attributable to the Group	28	—
Excess portion of loss sharing over cost of investment	(28)	—
	<hr/>	<hr/>
Share of post-acquisition losses at 31 March 2003	—	—
	<hr/>	<hr/>

The results of the associate are based on its unaudited management accounts for the period from 8 August 2002 (date of incorporation) to 31 March 2003. The Group's share of loss of the associate would have been limited to the cost of investment of approximately HK\$226 if the equity method had been applied.

19. COMPLETED PROPERTIES HELD FOR SALE

During the year ended 31 March 2002, the Group has entered an arbitration proceeding with a contractor (the "Construction Contractor") claiming approximately HK\$5,769,000 against the Group, details of which are disclosed in page 24 of the Prospectus. On 13 January 2003, China International Economic and Trade Arbitration Commission in Beijing, the PRC ("CIETAC"), made an arbitral award in favour of the Construction Contractor such that the Group is required to settle the said claim which has been fully provided in the financial statements.

According to the advice given by the Group's PRC legal counsel, the completed properties held for sale amounted to approximately HK\$10,076,000 as at 31 March 2003 (2002: approximately HK\$10,073,000) which were subject to a charging order ordered by the People's Court of the PRC prior to the execution of the above arbitration, was released upon the issuance of the court order granted by CIETAC.

20. DEPOSIT PAID

The amount represents deposit paid for the acquisition of land in the PRC for the development of properties held for sale.

20. DEPOSIT PAID *(continued)*

According to the directors, no construction work has been commenced on the site on which the subject land is situated as at 31 March 2003. As construction work has not been commenced within the time period prescribed by the relevant PRC laws, the relevant PRC authorities may resume the site before the expiry of the land use right period. As at 29 July 2003, the directors are not aware of any indication that the relevant PRC authorities will resume the site on which the subject land is situated.

21. PROPERTIES UNDER DEVELOPMENT

	2003 HK\$'000	2002 HK\$'000
At 1 April 2002/2001, at cost	92,284	192,784
Exchange realignment	26	68
Interest capitalised	—	4,231
Additions	—	77,190
Transferred to cost of sales	—	(53,648)
Transferred to investment properties	—	(49,111)
Transferred to completed properties held for sale	—	(79,230)
	<hr/>	<hr/>
At 31 March 2003/2002, at cost	92,310	92,284

The properties under development were valued at their open market value at 31 March 2003 by an independent firm of surveyor, Messrs Castores Magi Surveyors Limited, who have among their staff Registered Professional Surveyors, on an open market existing use basis. By reference to the valuation report, the directors consider that no impairment is necessary.

Notes to the Financial Statements

For the year ended 31 March 2003

(Expressed in Hong Kong dollars)

22. TRADE RECEIVABLES

The Group grants credit terms to purchasers of properties on the merit of individual purchaser's credit. The aging analysis of trade receivables at the balance sheet date is as follows:

	2003 HK\$'000	2002 HK\$'000
0 – 90 days	6,144	35,434
1 – 2 years	–	23
	<u>6,144</u>	<u>35,457</u>

23. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount due is unsecured, interest-free and has no fixed terms of repayment.

24. CASH AND CASH EQUIVALENTS

As at 31 March 2003, cash and cash equivalents include unused proceeds from the Placing and the Public Offer of approximately HK\$6 million placed into short-term deposit and savings account which should be used only for the Group's business in accordance with the plan as stated in the Prospectus.

As at 31 March 2003, approximately HK\$10,578,000 (2002: approximately HK\$3,162,000) of the Group's bank balances and deposits were denominated in Renminbi. Renminbi is not a freely convertible currency.

25. TRADE PAYABLES

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

	2003 HK\$'000	2002 HK\$'000
0 – 90 days	–	31
91 – 180 days	–	954
181 – 365 days	–	41,538
1 – 2 years	30,072	27,740
Over 2 years	–	19,569
	<u>30,072</u>	<u>89,832</u>

26. AMOUNT DUE TO A RELATED COMPANY

The amount due is unsecured, non-interest bearing and has no fixed terms of repayment. Mr. Leung Ngai Man, an executive director of the Company, has beneficial interest in the related company, Pacific Glory Group Holding Limited (“Pacific Glory”).

27. AMOUNT DUE TO A DIRECTOR

The amount due was unsecured, interest-free and has been fully paid during the year.

28. SHARE CAPITAL

	Number of shares	Amount HK\$
<i>Authorised:</i>		
<i>Ordinary share of HK\$0.10 each:</i>		
At date of incorporation, at 31 March 2002 and at 1 April 2002 (a)	1,000,000	100,000
Share sub-division (b)	9,000,000	—
	<hr/>	<hr/>
<i>Ordinary share of HK\$0.01 each</i>	10,000,000	100,000
Increase in authorised ordinary share capital (c)	10,000,000	100,000
	<hr/>	<hr/>
	20,000,000	200,000
Increase in authorised ordinary share capital (d)	19,980,000,000	199,800,000
	<hr/>	<hr/>
At 31 March 2003	<u>20,000,000,000</u>	<u>200,000,000</u>

Notes to the Financial Statements

For the year ended 31 March 2003

(Expressed in Hong Kong dollars)

28. SHARE CAPITAL (continued)

	Number of shares	Amount HK\$
Issued and fully paid:		
<i>Ordinary share of HK\$0.10 each:</i>		
Issue of shares at nil paid upon incorporation (a)	999,999	—
Issue of shares at nil paid (a)	1	—
	<hr/>	<hr/>
At 31 March 2002 and at 1 April 2002 (h)	1,000,000	—
Share sub-division (b)	9,000,000	—
	<hr/>	<hr/>
<i>Ordinary share of HK\$0.01 each:</i>		
Ordinary shares at nil paid	10,000,000	—
Credited as fully paid for the issued nil paid shares (e)	—	100,000
	<hr/>	<hr/>
Issued ordinary shares of HK\$0.01 each	10,000,000	100,000
Issue of shares arising from the Reorganisation (e)	10,000,000	100,000
	<hr/>	<hr/>
	20,000,000	200,000
Issue of shares through the Placing and the Public Offer (f)	130,000,000	1,300,000
Capitalisation of share premium (g)	650,000,000	6,500,000
	<hr/>	<hr/>
At 31 March 2003	800,000,000	8,000,000
	<hr/>	<hr/>

Notes:

- (a) The Company was incorporated on 26 October 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, of which (i) as to 999,999 shares were allotted and issued nil paid to Climax Park and (ii) as to the remaining one share was allotted and issued nil paid to Codan Trust Company (Cayman) Limited on 8 November 2001 and was transferred to Climax Park on the same date.
- (b) On 24 April 2002, a written resolution was passed by the then sole shareholder of the Company to sub-divide each share having a par value of HK\$0.10 each in the share capital of the Company into ten shares.
- (c) Pursuant to a written resolution in writing of the then sole shareholder of the Company passed on 25 April 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of 10,000,000 ordinary shares with a nominal value of HK\$0.01 each, ranking pari passu with the then existing ordinary shares in all respects.

28. SHARE CAPITAL *(continued)*

Notes: (continued)

- (d) Pursuant to another written resolution in writing passed by the then sole shareholder of the Company on 25 April 2002, the authorised share capital of the Company was further increased from HK\$200,000 to HK\$200,000,000 by the creation of a further 19,980,000,000 shares with a nominal value of HK\$0.01 each, ranking *pari passu* with the then existing ordinary shares in all respects.
- (e) On 25 April 2002, pursuant to the Reorganisation, further details of which are set out in note 1 to the financial statements, the Company acquired the entire issued share capital of Sino Prosper Group Limited from Climax Park in consideration of and in exchange for which the Company (i) credited as fully paid at par the 10,000,000 nil paid shares then held by Climax Park, and (ii) allotted and issued, credited as fully paid at par, 10,000,000 shares to Climax Park.
- (f) On 9 May 2002, pursuant to the share offer scheme, the Company issued 130,000,000 ordinary shares of HK\$0.01 each by way of placing and public offer (the “Placing and the Public Offer”) at HK\$0.25 per share for a total cash consideration of approximately HK\$32,500,000 in relation to the listing of the Company’s shares on the Stock Exchange. Accordingly, approximately HK\$31,200,000 was credited to the share premium account (note 29). The Company’s shares were listed on the main board of the Stock Exchange on 15 May 2002. After deducting share issue expenses of approximately HK\$8,335,000, the net cash proceeds were approximately HK\$24,165,000.
- (g) Immediately after the Placing and the Public Offer, share premium of HK\$6,500,000 was capitalised and applied in paying up in full at par 650,000,000 shares with a nominal value of HK\$0.01 each for allotment and issue to the holders of the Company’s shares whose names appear on the register of members of the Company at the close of business on 25 April 2002 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing share holdings in the Company.
- (h) The share capital of approximately HK\$78,000 as at 31 March 2002 represented the aggregate amount of the nominal value of the issued share capital of the subsidiary comprising the Group for the purpose of preparing the proforma financial statements as at 31 March 2002.

Notes to the Financial Statements

For the year ended 31 March 2003

(Expressed in Hong Kong dollars)

29. RESERVES

Group	Share premium HK\$'000	Translation reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2001	–	(13,443)	–	52,285	38,842
Exchange differences arising from translation of financial statements of the overseas operations	–	22	–	–	22
Revaluation increase (note 15)	–	–	44,355	–	44,355
Net profit for the year	–	–	–	27,766	27,766
At 31 March 2002 and at 1 April 2002	–	(13,421)	44,355	80,051	110,985
Exchange differences arising from translation of financial statements of the overseas operations	–	16	–	–	16
Reversal on transfer of investment properties to completed properties held for sale (note 15)	–	–	(8,648)	–	(8,648)
Revaluation decrease (note 15)	–	–	(590)	–	(590)
Issue of shares through the Placing and the Public Offer (note 28(f))	31,200	–	–	–	31,200
Share issue expenses (note 28(f))	(8,335)	–	–	–	(8,335)
Capitalisation of share premium (note 28(g))	(6,500)	–	–	–	(6,500)
Net loss for the year	–	–	–	(9,665)	(9,665)
At 31 March 2003	16,365	(13,405)	35,117	70,386	108,463

29. RESERVES (continued)

Company	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31 March 2002 and at 1 April 2002	–	–	–
Issue of shares through the Placing and the Public Offer (note 28(f))	31,200	–	31,200
Share issue expenses (note 28(f))	(8,335)	–	(8,335)
Capitalisation of share premium (note 28(g))	(6,500)	–	(6,500)
Net loss for the year	–	(3,672)	(3,672)
	<u> </u>	<u> </u>	<u> </u>
At 31 March 2003	<u>16,365</u>	<u>(3,672)</u>	<u>12,693</u>

Note:

Under the Companies Laws of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. The Company's reserves available for distribution comprise the share premium account and retained profits. As at 31 March 2003, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$12,693,000 (2002: Nil).

Notes to the Financial Statements

For the year ended 31 March 2003

(Expressed in Hong Kong dollars)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of (loss)/profit from ordinary activities before taxation and minority interests to net cash used in operating activities

	2003 HK\$'000	2002 HK\$'000
(Loss)/Profit from ordinary activities before taxation and minority interests	(9,901)	53,026
Adjustments for:		
Bank interest income	(16)	(135)
Depreciation	85	72
Finance costs	6,000	846
Operating (loss)/profit before changes in working capital	(3,832)	53,809
Changes in working capital:		
Completed properties held for sale	12,314	–
Deposit paid	–	(29,974)
Properties under development	–	(19,696)
Trade receivables	29,313	(22,079)
Other receivables and prepayments	4,586	3,396
Amount due from a minority shareholder	–	(408)
Amount due from ultimate holding company	(13)	–
Trade payables	(59,760)	(14,399)
Other payables and accruals	5,039	4,356
Amount due to a director	(2,014)	–
Amount due to a related company	(17)	42
Net cash used in operations	(14,384)	(24,953)
Bank interest income	16	135
The PRC tax paid	–	(1,315)
Net cash used in operating activities	(14,368)	(26,133)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

b. Major non-cash transactions

- (i) Pursuant to the written resolution passed by the then sole shareholder of the Company on 25 April 2002, 650,000,000 shares with a nominal value of HK\$0.01 each were issued upon the capitalisation of certain sums standing to the credit of the share premium account of the Company.
- (ii) Pursuant to the agreement on 25 April 2002, the Company acquired the entire issued share capital of Sino Prosper Group Limited from Climax Park in consideration of and in exchange for which the Company (i) credited as fully paid at par the 10,000,000 nil paid shares then held by Climax Park, and (ii) allotted and issued, credited as fully paid at par, 10,000,000 shares to Climax Park.

31. OPERATING LEASE COMMITMENTS

As at 31 March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follow:

	2003 HK\$'000	2002 HK\$'000
Within one year	1,023	90
In the second to fifth year inclusive	2,162	–
	<u>3,185</u>	<u>90</u>

As at 31 March 2003, the Company had no commitments under operating leases (2002: Nil).

32. MANAGEMENT FEE COMMITMENTS

As at 31 March 2003, the Group had no commitments under non-cancellable management fee agreements (2002: approximately HK\$1,246,000).

As at 31 March 2003, the Company had no commitments under non-cancellable management fee agreements (2002: Nil).

Notes to the Financial Statements

For the year ended 31 March 2003

(Expressed in Hong Kong dollars)

33. OTHER COMMITMENTS

	2003 HK\$'000	2002 HK\$'000
Expenditure contracted for but not provided in the financial statements in respect of acquisition of land in the PRC	3,224	3,223

34. BANKING FACILITIES

As at the balance sheet date, total banking facilities granted to the Group amounted to approximately HK\$70,874,000 (2002: approximately HK\$67,854,000) and were secured by the following:

	2003 HK\$'000	2002 HK\$'000
a. Pledge of assets		
Investment properties	76,500	95,800
Completed properties held for sale	27,968	36,259
	104,468	132,059
b. Corporate and personal guarantees granted by the Company and an executive director of the Company.		

35. CONTINGENT LIABILITIES

	2003 HK\$'000	2002 HK\$'000
Penalties for late completion of properties (a)	8,471	8,469
Guarantees given to a bank in respect of mortgage facilities granted to purchasers for the acquisition of the properties (b)	80,175	94,867
Total contingent liabilities	88,646	103,336

35. CONTINGENT LIABILITIES *(continued)*

Notes:

- (a) The relevant parties have not claimed for late completion up to now, in the opinion of the directors, it is unlikely for these parties to make the claims and accordingly, no provision has been made.
- (b) The guarantees given will be released upon the earliest of: (i) registration of mortgage by the purchaser-mortgagors holding the relevant housing ownership certificate; (ii) repayment of loan by the purchaser-mortgagors; and (iii) two years from the date of any breach of obligations by the purchaser-mortgagors.

36. RELATED PARTY TRANSACTION

The Group entered into the following related party transaction during the year:

Name of related party	Nature of transaction	2003	2002
		HK\$'000	HK\$'000
Pacific Glory	Rental expenses paid	–	21

Mr. Leung Ngai Man, an executive director of the Company, has beneficial interest in Pacific Glory.

In the opinion of the directors, the above transaction is based on terms agreed by both parties and in the ordinary course of business. The Group has discontinued the rental transactions with Pacific Glory during the year ended 31 March 2003.

37. POST BALANCE SHEET EVENTS

- a. A writ dated 19 December 2002 was filed by a purchaser with the People's Court of the PRC against the Company's subsidiary, Dalian Dong Gang Real Estate Development Co., Ltd ("Dalian Dong Gang") in respect of a dispute over the procurement for sale and repurchase of certain properties situated in Dalian Asia Pacific Finance Centre. A charging order granted by the People's Court of the PRC on 28 January 2003 whereby a charging order over Dalian Dong Gang's bank deposits for the sum of approximately RMB19,000,000 (or assets of an equivalent amount) was imposed, pending the outcome of the legal proceedings. As at the date of the announcement made by the Company on 21 March 2003, no asset of Dalian Dong Gang other than its bank accounts with a credit balance of approximately RMB330,000 (equivalent to approximately HK\$310,000) has been subject to such charging order.

Notes to the Financial Statements

For the year ended 31 March 2003

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37. POST BALANCE SHEET EVENTS (continued)

The purchaser subsequently applied for a withdrawal of its claims and the People's Court of the PRC gave an order on 17 July 2003, approving the withdrawal application. The People's Court of the PRC also ordered that all court fees in connection with the said litigation would be borne by the purchaser. According to the advice given by the Group's PRC legal counsel, the charging order over Dalian Dong Gang's bank deposits, was released upon the approval of the withdrawal application by the People's Court of the PRC.

- b. On 27 June 2003, the Group entered into a new loan agreement of RMB71,880,000 (equivalent to approximately HK\$67,760,000) with China Construction Bank, Dalian Branch, to replace its existing loan facility of RMB72,000,000 (equivalent to approximately HK\$67,874,000) in aggregate as at 31 March 2003. The loan is secured by all of the Group's investment properties and certain properties held for sale with an aggregate carrying value of approximately HK\$104,468,000 as at 31 March 2003, interest bearing at 0.56% per month and repayable on 26 May 2004.

38. AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 July 2003.