

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the audited financial statements for the year ended 30 April 2003, except for the adoption of the following revised SSAP, which for the first time in the preparation of the unaudited condensed consolidated interim financial statements for the period.

In the current period, the Group has adopted, for the first time, the Statement of Standard Accounting Practice No. 12 (Revised) “Income Taxes” (“SSAP 12 (Revised)”) issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax.

In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting period. Accordingly no prior period adjustment has been made.

2. PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The Group’s principal activities include securities trading and investments, property investment, and property management. An analysis of the Group’s consolidated turnover and result by business segment and geographical location is as follows:

Business segments

	Unaudited Turnover Six months ended 31 October		Unaudited Segment results Six months ended 31 October	
	2003 HK\$’000	2002 HK\$’000	2003 HK\$’000	2002 HK\$’000
Property investment and management consultancy	–	1,849	(3,025)	(1,244)
Corporate investment and financial services	<u>1,811</u>	<u>2,469</u>	<u>4,118</u>	<u>(20,540)</u>
	<u>1,811</u>	<u>4,318</u>	<u>1,093</u>	<u>(21,784)</u>
Unallocated costs less revenue			<u>(525)</u>	<u>(30,036)</u>
Operating profit/(loss)			<u>568</u>	<u>(51,820)</u>
Share of profits less losses of: Jointly controlled entities			<u>(2,626)</u>	<u>(1,870)</u>
Loss from operating activities			<u>(2,058)</u>	<u>(53,690)</u>
Taxation			<u>–</u>	<u>(9)</u>
Loss attributable to shareholders			<u>(2,058)</u>	<u>(53,699)</u>
<i>Geographical Segments</i>				
Hong Kong and Mainland China	<u>1,811</u>	<u>4,118</u>	<u>(2,058)</u>	<u>(53,899)</u>
Malaysia	<u>–</u>	<u>200</u>	<u>–</u>	<u>200</u>
	<u>1,811</u>	<u>4,318</u>	<u>(2,058)</u>	<u>(53,699)</u>

3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	Unaudited Six months ended 31 October	
	2003	2002
	HK\$'000	HK\$'000
Crediting:		
Gain on disposal of fixed assets	—	72
Charging:		
Staff costs	1,105	1,057
Depreciation	6	10
Operating leases on land and buildings	304	1,793

4. TAXATION

No provision for Hong Kong profits tax is made in the accounts as the Group has no assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Unaudited Six months ended 31 October	
	2003	2002
	HK\$'000	HK\$'000
Company and subsidiaries:		
Overseas taxation	—	9

5. DIVIDENDS

	Unaudited Six months ended 31 October	
	2003	2002
	HK\$'000	HK\$'000
Preference dividend payable of HK\$0.151 per preference share on 79,990 preference shares (2002: HK\$0.151 on 2,549,990 preference shares)	12	385

Preference dividend is paid at 6% per annum on the notional value of HK\$5 per preference share to be paid half yearly on 30 June and 31 December in each year.

6. **LOSS PER SHARE**

The calculation of basic loss per share is based on the Group's loss attributable to shareholders after preference dividend for the six months ended 31 October 2003 of approximately HK\$2.1 million (2002: loss of HK\$54 million) and on the weighted average of 1,345,203,852 (2002: 21,112,819 ordinary shares in issue after adjusted for share consolidation on 16 December 2002) ordinary shares in issue during the period.

The diluted loss per share for both periods is not shown as the effect was anti-dilutive.

7. **JOINTLY CONTROLLED ENTITIES**

	Unaudited As at 31 October 2003 <i>HK\$'000</i>	Audited As at 30 April 2003 <i>HK\$'000</i>
Share of net liabilities	(72,616)	(69,990)
Amounts due from jointly controlled entities	136,311	136,311
Amounts due to jointly controlled entities	(20)	(20)
Provision for impairment losses	(50,000)	(50,000)
	<u>13,675</u>	<u>16,301</u>

8. **TRADE AND OTHER RECEIVABLES**

	Unaudited As at 31 October 2003 <i>HK\$'000</i>	Audited As at 30 April 2003 <i>HK\$'000</i>
Trade debtors	–	–
Other receivables	3,618	3,718
	<u>3,618</u>	<u>3,718</u>

The general credit terms ranging from 0 to 60 days.

9. TEMPORARY DEPOSITS, ACCOUNTS PAYABLE AND ACCRUALS

	Unaudited	Audited
	As at	As at
	31 October	30 April
	2003	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors	9,994	8,512
Temporary deposits, accruals and other payables	13,527	13,378
	<u>23,521</u>	<u>21,890</u>

The ageing analysis of trade creditors is as follows:

	Unaudited	Audited
	As at	As at
	31 October	30 April
	2003	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-3 months	9,994	8,512
Over 3 months	–	–
	<u>9,994</u>	<u>8,512</u>

10. AMOUNT DUE TO SHAREHOLDER

The amount due is unsecured, interest-free and repayable on demand.

11. CONVERTIBLE NOTES

The convertible notes (“CB”) in an aggregate principal amount of HK\$20,000,000 due on 16 December 2005, being the third anniversary of date of issue, were issued and allotted by the Company on 16 December 2002. The CB bears an interest at the rate of 2% per annum payable semi-annually in arrears. The whole of the principal amount of each CB of HK\$1,000,000 is convertible into ordinary shares of the Company at the option of the holder of CB at the conversion price, being the lower of the fixed conversion price of HK\$0.05 per share, subject to adjustment.

The holder of CB also has the right at any time to require the Company to redeem the whole or part of the outstanding amount of the CB at 125% of the face value of the outstanding amount, together with interest accrued on the condition that the closing price per ordinary share of the Company falls below 35% of the fixed conversion price for a period of 15 consecutive trading days following the date of issue of the CB.

12. SHARE CAPITAL

	Ordinary shares of HK\$0.05 each		6% Convertible cumulative redeemable preference shares of HK\$1 each		Total HK\$'000
	Number of Shares	HK\$'000	Number of Shares	HK\$'000	
Authorised:					
At 30 April 2003 and at 31 October 2003	<u>4,000,000,000</u>	<u>200,000</u>	<u>100,000,000</u>	<u>100,000</u>	<u>300,000</u>
Issued and fully paid:					
At 30 April 2003	1,288,112,818	64,406	1,949,990	1,950	66,356
Conversion of preference Shares	<u>233,750,000</u>	<u>11,687</u>	<u>(1,870,000)</u>	<u>(1,870)</u>	<u>9,817</u>
At 31 October 2003	<u>1,521,862,818</u>	<u>76,093</u>	<u>79,990</u>	<u>80</u>	<u>76,173</u>

(a) Preference shares

A holder of the convertible preference shares is entitled to receive a fixed cumulative preferential dividend at the rate of 6% per annum on the notional value of HK\$5 per share to be paid half-yearly on 30 June and 31 December in each year.

A holder of the convertible preference shares may convert his shares held at any time into ordinary shares at the conversion price of HK\$0.04 per share, subject to adjustment.

The convertible preference shares may be redeemed by the shareholders at any time after 30 June 1996 at a redemption price per share equal to the notional value plus accrued dividend.

The Company has the option to redeem all or some of the convertible preference shares at any time at the notional value of the convertible preference shares if the average of the closing prices of the Company's ordinary share quoted on the Stock Exchange over the preceding 30 consecutive dealing days ending on the seventh day prior to the date upon which notice of redemption is given is greater than or equal to 150% of the conversion price in effect on such seventh day.

(b) Issue of ordinary shares upon conversion of preference shares at the conversion price of HK\$0.04 took place as follows:

Date of conversion	No. of preference shares of HK\$1 each converted	No. of new ordinary shares of HK\$0.05 each issued upon conversion
16 September 2003	1,863,000	232,875,000
2 October 2003	<u>7,000</u>	<u>875,000</u>
	<u>1,870,000</u>	<u>233,750,000</u>

Upon completion of the above conversion, the convertible preference share reserve is reduced by an aggregate amount of HK\$2,337,500 on the basis that the conversion price of preference share of HK\$0.04 is lower than the nominal value of each ordinary share of HK\$0.05 each. Furthermore, the issue of ordinary shares upon conversion reduced the share premium account by an aggregate amount of HK\$7,480,000.

13. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in these interim accounts, the significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Unaudited Six months ended 31 October	
	2003	2002
	HK\$'000	HK\$'000
Rental paid to an investee company	–	1,769
Consultancy fee received from jointly controlled entities	–	200
	<u> </u>	<u> </u>

14. CONTINGENT LIABILITIES

At 30 April 2003, the Company entered into a letter of guarantee with a financial creditor to provide an unlimited corporate guarantee to a wholly-owned subsidiary, Sino Forward International Limited, to secure general facilities granted to it. At the balance sheet date, there was nil balance due to the financial creditor by Sino Forward International Limited (2002: Nil).

15. COMMITMENTS UNDER OPERATING LEASES

At 31 October 2003, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 October 2003 HK\$'000	Audited 30 April 2003 HK\$'000
Land and buildings		
– within one year	152	348
– after one and within five years	–	–
	<u> </u>	<u> </u>
	152	348
	<u> </u>	<u> </u>

16. POST BALANCE SHEET EVENTS

On 16 September 2003, Smartgood Investments Limited (“Smartgood”), a company with limited liabilities incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Zhou Weirong (“Mr. Zhou”) converted 1,863,000 convertible preference shares (“CPS”) of the Company into 232,875,000 ordinary shares of HK\$0.05 each of the Company (“Shares”), and on 19 September 2003, Smartgood entered into an agreement with Perfect View Development Limited (“Perfect View”), the then controlling shareholder of the Company, to acquire 906,000,000 Shares from Perfect View. Immediate following the acquisition of 906,000,000 Shares from Perfect View, Smartgood became the single largest shareholder of the Company, holding 1,138,875,000 Shares, representing approximately 74.88% of the then total issued Shares and the entire CB of the Company, as such Smartgood was obliged under the Hong Kong Code on Takeovers and Mergers to make a mandatory unconditional cash offers (the “Offers”) for all the issued Shares and all the outstanding CPS not already owned and/or agreed to be acquired by it and parties acting in concert with it. The composite offer and response document relating to the Offers was published on 5 November 2003. The Offers was closed on 26 November 2003; following the close of the Offers and with the acceptances received under the Offers for 4,164 Shares and 31,000 CPS, Smartgood held 1,138,879,164 Shares, 31,000 CPS and the entire CB of the Company, and Perfect View held 6 Shares and 38,000 CPS. Immediate following the close of the Offers, Mr. Zhou Weirong was appointed as an executive Director and Chairman of the Company, and Mr. Cheung Yu Shum, Jenkin remained as an executive Director.