



**SINO PROSPER HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Annual Report **2004**

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# Corporate Information

## **EXECUTIVE DIRECTORS**

Mr. LEUNG Ngai Man (*Chairman*)  
Mr. YEUNG Kit

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. CAI Wei Lun  
Mr. CHAN Sing Fai

## **COMPANY SECRETARY**

Ms. CHIU Ngan Ling Annie

## **HONG KONG LEGAL ADVISOR**

Chiu & Partners

## **AUDITORS**

HLB Hodgson Impey Cheng  
*Chartered Accountants*  
*Certified Public Accountants*

## **REGISTERED OFFICE**

P.O. Box 2681 GT  
Century Yard  
Cricket Square  
Hutchins Drive  
George Town  
British West Indies

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Units D-E  
7th Floor  
Neich Tower  
128 Gloucester Road  
Wanchai  
Hong Kong

## **PRINCIPAL BANKERS**

China Construction Bank, Dalian Branch  
Bank of China (Hong Kong) Limited

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Secretaries Limited  
28th Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road, Wanchai  
Hong Kong

# Chairman's Statement

On behalf of the Board of Directors (the "Directors"), I am pleased to present the annual results of Sino Prosper Holdings Limited ("Sino Prosper"/the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2004.

## **BUSINESS REVIEW AND PROSPECTS**

### **Business Performance and Analysis**

Looking back at the financial year ended 31 March 2004, though many businesses were seriously affected by the Iraqi War and the outbreak of Severe Acute Respiratory Syndrome ("SARS"), the Group undertook business restructuring during the year and managed to achieve stable performance. For the year ended 31 March 2004, the Group recorded a turnover of approximately HK\$27,831,000 representing an increase of approximately 14% as compared to last year. Aiming at improving operational efficiencies, the management dedicated their effort to adjust the Group's operation strategy, hence generating net profit attributable to shareholders to approximately HK\$150,000 (year ended 31 March 2003: a net loss of approximately HK\$9,665,000).

### **Properties Development Operations**

#### *Dalian Properties Development Projects*

In the first six months of the year under review, the property retail market in the PRC was dragged by the threat of SARS. The Group was however able to promptly respond to market changes and with flexibility adjust its sales strategy, bringing in increased turnover when compared to the same period last year. Nevertheless, to realise its plan to diversify its business and re-position itself to develop gas and power business, the Group sold two subsidiaries and thus disposed of the majority

of its properties development and management service projects in Dalian at a total consideration of HK\$8,000,000 in March 2004.

Such move is expected to improve the Group's cash flow position, and enable the Group to invest in new properties development and gas pipeline projects with greater flexibility, further widening the Group's sources of income.

### **Energy Projects**

After acquiring 29% interests of Beijing Bluesky Technology Co., Ltd ("Beijing Bluesky"), a wholly-owned subsidiary of Bekwin International Ltd which is owned as to 29% by the Group, in late 2002 at a consideration of RMB8,000,000, the Group has been actively planning to increase its investment in the development of city gas pipelines and the supply and sales of natural gas in the PRC. Thus, the Group has been actively looking for suitable projects so as to seize any promising development opportunities.

To capture the vast opportunities brought about by the "West-to-East Gas Transmission Project" in the PRC, on 23 December 2003, the Group, through its newly formed wholly-owned subsidiary, Sino Prosper Gas Limited ("Sino Prosper Gas"), signed a letter of intent with China Everbright Petroleum Exploitation and Investment Co., Ltd. ("Everbright") to set up a co-operative company in China. Pooling the strengths of the two parties, including Everbright's experience in developing and operating gas pipeline networks in various PRC cities and the capital advantages of Sino Prosper, the co-operation allows both partners to set up businesses in various cities and regions in the PRC to develop gas supply networks and provide gas

# Chairman's Statement

supply services, which will further consolidate Sino Prosper's foundation in gas operations in the PRC.

In addition, on 26 January 2004, Sino Prosper Gas entered into the Memorandum of Understanding with shareholders of Luoyang Wuzhou Gas Limited ("Wuzhou Gas") for the proposed purchase by Sino Prosper Gas of 100% interest in the registered capital of Wuzhou Gas ("Sale Equity") at a consideration of not more than RMB18,500,000 (equivalent to approximately HK\$17,500,000 million). Sino Prosper Gas would acquire 90% of the Sale Equity from Shenzhen Fenglei Investments Co., Ltd ("Shenzhen Fenglei") and 10% of the Sale Equity from Henan Huilida Industrial Co., Ltd ("Henan Huilida").

Wuzhou Gas is a natural gas pipelines operator with approval from the Luoyang Municipal Public Services Bureau, as the sole operator for the construction and operation of the gas pipeline networks in Xinan County, Yanshi County and Mengjian County in Luoyang, PRC for a term of operation of 25 years commencing 2003. Moreover, Shenzhen Fenglei and Henan Huilida guarantees that the profit before tax of Wuzhou Gas for the year ending 31 December 2004 would not be less than RMB8,000,000 (equivalent to approximately HK\$7,500,000), and that Wuzhou Gas would be entitled to the preferential treatments and assistance from the national, provincial and local governments in respect of the construction and operation of Wuzhou Gas on such terms and conditions as currently offered by the national, provincial and local governments.

The Group is confident that it will benefit from the synergies of the acquisition. Wuzhou Gas has the

technology and the expertise that can enhance the development of its gas, power and resources business and bring in higher returns rapidly.

Looking ahead, the Group will focus on consolidating its business and enhancing its profitability by raising its overall efficiency and strengthening its operations. In the meantime, the Group will continue to take a prudent approach to identify investment opportunities with promising prospects. Based on the Group's persistently stable operation strategy, we are ready to seize the vast potential brought about by the growing Chinese economy.

## FINANCIAL REVIEW

### NET ASSETS

As at 31 March 2004, the Group recorded total assets of approximately HK\$224,376,000, which were financed by liabilities of approximately HK\$5,358,000. The Group's net asset value as at 31 March 2004 increased by 88% to approximately HK\$219,018,000 as compared to approximately HK\$116,463,000 as at 31 March 2003.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows. As at 31 March 2004, the Group had cash and bank balances of approximately HK\$3,932,000 (2003: approximately HK\$10,645,000). Its gearing ratio calculated as a ratio of interest bearing net debt to shareholders' funds was nil (2003: approximately 0.61). Net current assets totalled approximately HK\$4,473,000 (2003: approximately HK\$44,033,000) and the current ratio was maintained at the healthy level of approximately 1.83 (2003: approximately 1.26).

### **CHARGES ON ASSETS**

As at 31 March 2004, the Group's investment properties with an aggregate revalued amount of approximately HK\$126,090,000 were pledged in favour of a bank in the PRC (the "Bank") to secure a loan of approximately RMB70,940,000 (equivalent to approximately HK\$66,723,000) granted by the Bank to the Company's former subsidiary, Dalian Dong Gang Real Estate Development Co., Ltd. ("Dalian Dong Gang"), pursuant to the bank loan agreement and pledge agreement signed between Dalian Dong Gang and the Bank. As at 31 March 2003, investment properties of approximately HK\$76,500,000 and properties held for sale of approximately HK\$27,968,000 were pledged to banks to secure banking facilities granted.

### **TREASURY POLICIES**

The Group generally finances its operations with internally generated resources and credit facilities provided by banks in the PRC. Before the disposal of subsidiaries by the Group as disclosed in the financial statements, the Group's subsidiaries in the PRC are financed by their short-term loans as working capital. Bank deposits as at 31 March 2004 as shown in the financial statements are denominated in Hong Kong dollars.

### **CONTINGENT LIABILITIES**

As at 31 March 2004, the Group had no contingent liabilities. As at 31 March 2003, the Group had contingent liabilities in relation to penalties for late completion of properties of approximately HK\$8,471,000 and guarantees given to a bank in respect of mortgage facilities granted to purchasers for the acquisition of the properties of approximately HK\$80,175,000.

### **COMMITMENT**

As at 31 March 2004, the Group had no commitment. As at 31 March 2003, expenditure contracted for but not provided in the financial statements in respect of acquisition of land in the PRC amounted to approximately HK\$3,224,000.

### **FOREIGN EXCHANGE EXPOSURE**

The Group mainly earns revenues and incurs costs in Renminbi, United States dollars and Hong Kong dollars. The Group's foreign exchange exposure is therefore minimal as long as the policy of the Government of Hong Kong Special Administrative Region to link the Hong Kong dollars to the United States dollars remains in effect.

### **EMPLOYEE AND REMUNERATION POLICIES**

As at 31 March 2004, the Group employed approximately 10 full time staff in the PRC and Hong Kong. The Group remunerates its employees based on their performance, work experience and prevailing market prices. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

### **CONCLUSION**

On behalf of the Group, I would like to thank our business partners for their cooperation and support. I would also like to take this opportunity to thank our Board of Directors and staff for their contribution and efforts throughout the year. We will continue to strive for outstanding results for the Group and better returns for our investors.

**Leung Ngai Man**  
*Chairman*

Hong Kong, 28 July 2004

ANNUAL REPORT 2004

# Management Profile

## DIRECTORS

### Executive directors

**Mr. LEUNG Ngai Man**, aged 43, is the founder and the Chairman of the Group. Mr. Leung has over 17 years of experience in the areas of trading, property development and property management in the PRC. Mr. Leung first engaged in the PRC trading business in 1983, since then he established an extensive network and relationship with numerous PRC companies and authorities. Mr. Leung commenced his business in the property development industry in the 1990s. He was previously a vice chairman and general manager of China Land Group Limited, the shares of which are currently listed on the Main Board of the Stock Exchange and principally engaged in the property development and investment in the PRC.

**Mr. YEUNG Kit**, aged 41, is an executive director of the Company. Mr. Yeung has over 9 years of experience in the field of banking and finance. Mr. Yeung also has over 11 years experience in the area of China Trade and investment.

### Independent non-executive directors

**Mr. CAI Wei Lun**, aged 49, has over 15 years of experience in the property development sector in the PRC.

**Mr. CHAN Sing Fai**, aged 48, is the chairman of Finnex Development Limited and Vision On Net Technology Limited. Mr. Chan has about 22 years of experience in property development and management. Mr. Chan obtained a master degree of business administration from the Hong Kong Chinese University in 1981.

## SENIOR MANAGEMENT

**Mr. YU Jin Fan**, aged 64, is the Chief Architect of the Group. Mr. Yu has been working as a structural architect with Dalian City Development General Company (大連城建總公司) since 1980. Mr. Yu joined the Group since 1993.

**Mr. MIAO Feng**, aged 48, is the Architect of the Group. Mr. Miao has been working as an architect with Dalian City Development General Company (大連城建總公司) since 1989. Mr. Miao joined the Group since 1996.

**Ms. WU Wei Hua**, aged 33, is the chief accountant of the Group in Dalian. Ms. Wu has more than eight years of experience in the accounting field. She joined the Group since 1996.

**Ms. CHIU Ngan Ling Annie**, aged 36, is the Company Secretary of the Group. Ms. Chiu holds a Bachelor's degree in Arts majoring in Accountancy from the Hong Kong Polytechnic University. She has worked in an international accounting firm and has over 13 years of experience in accounting, finance and administration. She is a fellow member of The Association of Chartered Certified Accountants, an associate member of Hong Kong Society of Accountants and a member of Hong Kong Securities Institute.

# Directors' Report

The directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2004.

## PRINCIPAL ACTIVITIES

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.

## SEGMENT INFORMATION

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

## RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 March 2004 and the state of affairs of the Company and the Group at that date are set out in the annual report on pages 16 to 55.

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 March 2004.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from financial statements and reclassified as appropriate, is set out on pages 56 to 57 in the annual report. This summary does not form part of the audited financial statements.

## PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in plant and equipment and investment properties of the Group during the year are set out in notes 16 and 15, respectively to the financial statements. Further details of the Group's investment properties are set out on page 58 in the annual report.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in note 24 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

# Directors' Report

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

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 2004, in the opinion of the directors, no reserve is available for distribution to shareholders. 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.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 32% of the total sales for the year and sales to the largest customer included therein amounted to 7%. Purchases from the Group's five largest suppliers accounted for 70% of the total purchases for the year and purchases from the largest suppliers included therein amounted to 24%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

Mr. Leung Ngai Man

Mr. Yeung Kit

### Independent non-executive directors:

Mr. Chan Sing Fai

Mr. Cai Wei Lun

(appointed on 29 June 2004)

Mr. Lau Kam Wah, Andrew

(resigned on 1 July 2004)

In accordance with the provisions of the Company's Articles of Association, Mr. Yeung Kit and Mr. Cai Wei Lun shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on page 6 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except Mr. Yeung Kit, has entered into a service contract with the Company for an initial term of two years commencing 1 April 2002, which will continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

Apart from the foregoing, no directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 March 2004, the interests and short positions of the directors of the Company ("Directors") and chief executive of the Company in the shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part

XV of the SFO (including interests and short positions which the directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follow:—

Number of ordinary shares held as corporate interest	% of total issued shares
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*Executive directors:*

Mr. Leung Ngai Man (Mr. Leung)	600,000,000	75%
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*Note:* The above shares are held by Climax Park Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Leung.

Save as disclosed above and other than certain nominee shares in subsidiaries held by certain directors in trust for the Group, as at 31 March 2004, none of the Director or chief executive of the Company had any interest or short position in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **SHARE OPTIONS 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; (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 have been granted and/or exercised since the adoption of the Scheme.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2004, the Company was not notified by any persons who had an interest of 5% or more in the issued share capital of the Company, which is required to be recorded under section 336 of the Securities and Futures Ordinance.

Name of shareholder	Number of shares	Capacity and nature of interest	Approximate percentage of interests
Climax Park Limited	600,000,000 ordinary shares of HK\$0.01 each of the Company	Beneficial owner	75%
Leung Ngai Man	600,000,000 ordinary shares of HK\$0.01 each of the Company	Interest of a controlled corporation (Note 1)	75%
Delta Fortune Limited	500,000,000 ordinary shares of HK\$0.01 each of the Company	Person having a security interest in shares	62.50%
Cheung Wo Sin	500,000,000 ordinary shares of HK\$0.01 each of the Company	Interest of a controlled corporation (Note 2)	62.50%
Yu Yan	55,740,000 ordinary shares of HK\$0.01 each of the Company	Beneficial owner	6.97%

### Notes:

1. These 600,000,000 shares were held and beneficially owned by Climax Park Limited, a company incorporated in the British Virgin Islands and wholly owned by Leung Ngai Man. Under the SFO, Leung Ngai Man is deemed to be interested in these 600,000,000 shares.
2. Delta Fortune Limited, a company incorporated in the British Virgin Islands and wholly owned by Cheung Wo Sin, had a security interest in these 500,000,000 shares. Under the SFO, Cheung Wo Sin is deemed to be interested in these 500,000,000 shares.

## STAFF RETIREMENT BENEFITS

Details of staff retirement benefits are set out in note 13 to the financial statements.

## BORROWINGS

Details of the Group's borrowings are set out in note 31 to the financial statements.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

# Directors' Report

## RELATED PARTY TRANSACTIONS

No related party transactions was entered into during the year.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## MATERIAL ACQUISITIONS OR DISPOSALS

Saved as disclosed in notes 17 and 27 to the financial statements, there was no material acquisitions or disposals of subsidiaries or associates in the course of the financial year.

## POST BALANCE SHEET EVENTS

No significant post balance sheet events was noted.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

## AUDIT COMMITTEE

The Company has an audit committee (the "Committee") which was established in accordance with the requirements of the Code and comprises the two independent non-executive directors of the Company. The annual report for the year ended 31 March 2004 has been reviewed by the Committee which has been established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

## AUDITORS

Messrs. Deloitte Touche Tohmatsu were auditors of the Company for the period ended 31 March 2002. Messrs. HLB Hodgson Impey Cheng were auditors of the Company for the year ended 31 March 2003 and 2004.

The accompanying accounts were audited by Messrs. HLB Hodgson Impey Cheng. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board  
**Leung Ngai Man**  
*Chairman*

Hong Kong, 28 July 2004

# Auditors' Report



Chartered Accountants  
Certified Public Accountants

6/F Wheelock House  
20 Pedder Street  
Central  
Hong Kong

## **TO THE SHAREHOLDERS OF SINO PROSPER HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 16 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## **FUNDAMENTAL UNCERTAINTY – INVESTMENT PROPERTIES**

In forming our opinion, we have considered the adequacy of the disclosures made in note 15 to the financial statements concerning the Group's investment properties for which the property title (including land use rights) has not yet been obtained by the Group and which were pledged in favour of a bank to secure a bank loan granted to the Group's former subsidiary. The carrying value of the Group's investment properties amounted to approximately HK\$214,200,000 as at 31 March 2004.

As further explained in note 15 to the financial statements, pursuant to three transfer contracts dated 12 March 2004 (the "Property Transfer Contracts"), investment properties with an aggregate value of HK\$125,200,000 were transferred from Dalian Dong Gang Real Estate Development Co., Ltd. ("Dalian Dong Gang"), a subsidiary of the Company which was disposed of by the Group on 23 March 2004, to the Company's wholly-owned subsidiary, Konrich (Asia) Limited ("Konrich"), at an aggregate consideration of HK\$125,200,000. Such investment properties were revalued to approximately HK\$214,200,000 as at 31 March 2004. As of the date of approval of the financial statements, the transfer of the property title (including land use rights) was pending for the completion of relevant registration procedures with the relevant government authorities in the People's Republic of China ("PRC"). The directors believe that the procedures for the transfer will be completed within 6 months from the date of the relevant agreement.

Furthermore, as at 31 March 2004, the Group's investment properties with an aggregate revalued amount of approximately HK\$126,090,000 were pledged in favour of a bank in the PRC (the "Bank") to secure a loan of approximately RMB70,940,000 (equivalent to approximately HK\$66,723,000) granted by the Bank to the Company's former subsidiary, Dalian Dong Gang, pursuant to the bank loan agreement and pledge agreement (together, the "Pledge Agreements") signed between Dalian Dong Gang and the Bank. According to the bank confirmation received from the Bank, the loan balance amounted to RMB70,940,000 as at 31 March 2004. As of the date of approval of the financial statements, Dalian Dong Gang was still in the process of negotiating with the Bank for renewal of the bank loan and the Bank has not yet released the pledge over the relevant investment properties. The Company has obtained a confirmation dated 28 July 2004 from Dalian Dong Gang which confirms that, inter alia, Dalian Dong Gang has complied with the terms of the Pledge Agreements, including the repayment of loan principal and interest in accordance with the terms of the Pledge Agreements.

## **FUNDAMENTAL UNCERTAINTY – INVESTMENT PROPERTIES (Continued)**

Taking into account (i) the directors' belief that the procedures for the transfer of the property title of the relevant investment properties will be completed within 6 months from the date of the relevant agreement; (ii) the legal opinion provided by the Company's PRC legal advisors on 23 July 2004 which confirms, inter alia, that Konrich is the beneficial owner of the investment properties in accordance with the Property Transfer Contracts; and (iii) the confirmation dated 28 July 2004 from Dalian Dong Gang which confirms that Dalian Dong Gang has complied with the terms of the Pledge Agreements, including the repayment of loan principal and interest in accordance with the terms of the Pledge Agreements, the directors of the Company are satisfied that (i) the beneficial ownership of the investment properties vested with the Group and that it is appropriate to recognise the investment properties in the financial statements of the Group as at 31 March 2004; and (ii) Dalian Dong Gang has complied with the terms of the Pledge Agreements and accordingly no provision has been made in the financial statements of the Group as at 31 March 2004 for any liabilities which may arise from the above security given by the Group.

Should the Group fail to obtain property titles to the relevant investment properties, or should the relevant investment properties be seized by the Bank as a result of non-compliance by Dalian Dong Gang of the terms of the Pledge Agreements, appropriate adjustments against the carrying value of the Group's investment properties might be required. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

## **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **HLB Hodgson Impey Cheng**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong, 28 July 2004

# Consolidated Income Statement

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Turnover</b>	4	<b>27,831</b>	24,427
<b>Cost of sales</b>		<b>(19,932)</b>	(15,282)
<b>Gross profit</b>		<b>7,899</b>	9,145
<b>Other revenues</b>	4	<b>48</b>	55
<b>Gain on disposal of subsidiaries</b>	27	<b>10,609</b>	–
<b>Selling expenses</b>		<b>(765)</b>	(304)
<b>Administrative expenses</b>		<b>(9,348)</b>	(12,797)
<b>Profit/(Loss) from operations</b>	6	<b>8,443</b>	(3,901)
<b>Finance costs</b>	7	<b>(4,742)</b>	(6,000)
<b>Profit/(Loss) before taxation</b>		<b>3,701</b>	(9,901)
<b>Taxation</b>	11	<b>–</b>	–
<b>Profit/(Loss) before minority interests</b>		<b>3,701</b>	(9,901)
<b>Minority interests</b>		<b>(3,551)</b>	236
<b>Net profit/(loss) attributable to shareholders</b>	10, 25	<b>150</b>	(9,665)
<b>Earnings/(Loss) per share – basic, in cents</b>	8	<b>0.02</b>	(1.21)
<b>Earnings/(Loss) per share – diluted, in cents</b>	8	<b>N/A</b>	N/A

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

	Note	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 April 2002	25	78	–	(13,421)	44,355	80,051	111,063
Effect of the Reorganisation		(78)	–	–	–	–	(78)
Exchange differences arising from translation of financial statements of the overseas operations	25	–	–	16	–	–	16
Reversal on transfer of investment properties to completed properties held for sale	15, 25	–	–	–	(8,648)	–	(8,648)
Revaluation decrease	15, 25	–	–	–	(590)	–	(590)
Issue of shares	24(e)	200	–	–	–	–	200
Issue of shares through the Placing and the Public Offer	24(f)	1,300	31,200	–	–	–	32,500
Share issue expenses	24(f)	–	(8,335)	–	–	–	(8,335)
Capitalisation of share premium	24(g)	6,500	(6,500)	–	–	–	–
Net loss for the year	25	–	–	–	–	(9,665)	(9,665)
As at 31 March 2003 and as at 1 April 2003		8,000	16,365	(13,405)	35,117	70,386	116,463
Exchange differences arising from translation of financial statements of the overseas operations	25	–	–	165	–	–	165
Released on disposals of the overseas operations	25, 27	–	–	13,240	–	–	13,240
Revaluation increase	15, 25	–	–	–	89,000	–	89,000
Net profit for the year	25	–	–	–	–	150	150
<b>As at 31 March 2004</b>		<b>8,000</b>	<b>16,365</b>	<b>–</b>	<b>124,117</b>	<b>70,536</b>	<b>219,018</b>

Note: The comparative figure of the Company's share capital of approximately HK\$78,000 as at 1 April 2002 presented above represented the nominal value of the issued share capital of Sino Prosper Group Limited, the intermediate holding company of the Group as at that date prior to a group reorganisation (the "Reorganisation"). Pursuant to the Reorganisation, Sino Prosper Group Limited became a wholly-owned subsidiary of the Company. Details of the Reorganisation are set out in notes 1 and 24 to the financial statements.

The accompanying notes form an integral part of these financial statements.

# Consolidated Balance Sheet

As at 31 March 2004

(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Non-current assets</b>			
Investment properties	<i>15</i>	<b>214,200</b>	76,500
Fixed assets	<i>16</i>	<b>14</b>	165
Investment in an associate	<i>18</i>	<b>331</b>	50
		<hr/> <b>214,545</b> <hr/>	<hr/> 76,715 <hr/>
<b>Current assets</b>			
Completed properties held for sale		–	76,492
Deposit paid		–	29,983
Properties under development	<i>19</i>	–	92,310
Trade receivables	<i>20</i>	–	6,144
Other receivables and prepayments		<b>1,880</b>	33
Secured promissory note	<i>17(d)</i>	<b>4,000</b>	–
Amount due from ultimate holding company	<i>21</i>	<b>19</b>	13
Cash and cash equivalents		<b>3,932</b>	10,645
		<hr/> <b>9,831</b> <hr/>	<hr/> 215,620 <hr/>
<b>Less: Current liabilities</b>			
Trade payables	<i>22</i>	–	30,072
Other payables and accruals		<b>2,407</b>	29,485
Amount due to a related company	<i>23</i>	<b>93</b>	97
Tax payable		<b>2,858</b>	41,059
Secured bank borrowings	<i>31</i>	–	70,874
		<hr/> <b>5,358</b> <hr/>	<hr/> 171,587 <hr/>
<b>Net current assets</b>		<hr/> <b>4,473</b> <hr/>	<hr/> 44,033 <hr/>
<b>Total assets less current liabilities</b>		<hr/> <b>219,018</b> <hr/>	<hr/> 120,748 <hr/>
<b>Less: Minority interests</b>		<hr/> – <hr/>	<hr/> 4,285 <hr/>
<b>Net assets</b>		<hr/> <b>219,018</b> <hr/>	<hr/> 116,463 <hr/>

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
<i>Capital and reserves</i>			
<b>Share capital</b>	24	<b>8,000</b>	8,000
<b>Reserves</b>	25	<b>211,018</b>	108,463
		<b><u>219,018</u></b>	<b><u>116,463</u></b>

Approved by the Board of Directors on 28 July 2004 and signed on behalf of the Board by:

**Leung Ngai Man**  
*Director*

**Yeung Kit**  
*Director*

# Balance Sheet

As at 31 March 2004

(Expressed in Hong Kong dollars)

	Note	2004 HK\$'000	2003 HK\$'000
<b>Non-current asset</b>			
Investments in subsidiaries	17	<u>116</u>	<u>20,677</u>
<b>Current assets</b>			
Amount due from ultimate holding company	21	19	13
Amount due from an associate	18	67	–
Cash and cash equivalents		<u>3,922</u>	<u>3</u>
		<u>4,008</u>	<u>16</u>
<b>Less: Current liabilities</b>			
Accruals		<u>60</u>	<u>–</u>
<b>Net current assets</b>		<u>3,948</u>	<u>16</u>
<b>Net assets</b>		<u><u>4,064</u></u>	<u><u>20,693</u></u>
<i>Capital and reserves</i>			
<b>Share capital</b>	24	8,000	8,000
<b>Reserves</b>	25	<u>(3,936)</u>	<u>12,693</u>
		<u><u>4,064</u></u>	<u><u>20,693</u></u>

Approved by the Board of Directors on 28 July 2004 and signed on behalf of the Board by:

**Leung Ngai Man**  
Director

**Yeung Kit**  
Director

The accompanying notes form an integral part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Net cash generated from/(used in) operating activities</b>	26(a)	<u>10,145</u>	<u>(14,368)</u>
<b>Cash flows from investing activities</b>			
Payments to acquire fixed assets		(307)	(92)
Acquisition of interest in a jointly controlled entity		(4,257)	–
Disposal of subsidiaries, net of cash and cash equivalents disposed of	27	<u>(3,484)</u>	<u>–</u>
Net cash used in investing activities		<u>(8,048)</u>	<u>(92)</u>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	24(f)	–	32,500
Share issue expenses	24(f)	–	(8,335)
Advance to an associate		(281)	(50)
New bank borrowings raised		–	3,000
Repayment of bank borrowings		(4,017)	–
Interest paid		<u>(4,742)</u>	<u>(5,193)</u>
Net cash (used in)/generated from financing activities		<u>(9,040)</u>	<u>21,922</u>
Net (decrease)/increase in cash and cash equivalents		(6,943)	7,462
<b>Effect of foreign exchange rate changes</b>		230	16
<b>Cash and cash equivalents as at 1 April 2003/2002</b>		<u>10,645</u>	<u>3,167</u>
<b>Cash and cash equivalents as at 31 March 2004/2003</b>		<u><u>3,932</u></u>	<u><u>10,645</u></u>
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances		<u><u>3,932</u></u>	<u><u>10,645</u></u>

As at 31 March 2004, all of the Group's cash and bank balances were denominated in Hong Kong dollars. As at 31 March 2003, the Group had cash and bank balances of approximately HK\$10,578,000 which were denominated in Renminbi. The remittance of these funds out of the People's Republic of China (the "PRC") is subject to the exchange control restrictions imposed by the PRC government.

The accompanying notes form an integral part of these financial statements.

# Notes to the Financial Statements

*For the year ended 31 March 2004*

*(Expressed in Hong Kong dollars)*

## **1. GROUP REORGANISATION AND BASIS OF PREPARATION**

The Company was incorporated with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company on 26 October 2001. The directors consider the ultimate holding company as at 31 March 2004 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 2003 and 2004 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 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 3c 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.

In the current year, the Company has adopted for the first time the revised SSAP 12 “Income Taxes” which is effective for accounting periods commencing on or after 1 January 2003. The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts 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 material effect on the results of the Company for the current or prior financial years, accordingly, no prior year adjustment has been required.

A summary of the significant accounting policies followed by the Company in the preparation of the financial statements is 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.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### a. Basis of consolidation (Continued)

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.

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.

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### c. Investment properties (Continued)

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.

#### d. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost of items of fixed assets over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following annual rates:

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.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 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 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. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### i. 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.

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### j. **Contingent liabilities and contingent assets**

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. A contingent asset is not recognised but is 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. **Taxation**

The charge for taxation in the income statement for the year comprises current and deferred tax.

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

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### l. Taxation (Continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### m. 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.

### 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.

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### n. Employee benefits (Continued)

- (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.
- (iii) The Group's contributions to a local municipal government retirement scheme in 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.
- (iv) 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.
- (v) 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

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (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".

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### **o. Revenue recognition (Continued)**

- (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.
- (v) Sundry income is recognised when received.

### **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**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

### **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 REVENUES

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:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Turnover:</b>		
Proceeds from sales of properties	<b>28,689</b>	25,416
Rental and building management fee income from leasing of investment properties	<b>607</b>	297
	<hr/>	<hr/>
	<b>29,296</b>	25,713
Less: Business tax	<b>(1,465)</b>	(1,286)
	<hr/>	<hr/>
	<b>27,831</b>	24,427
	<hr/>	<hr/>
<b>Other revenues:</b>		
Bank interest income	–	16
Sundry income	<b>48</b>	39
	<hr/>	<hr/>
	<b>48</b>	55
	<hr/>	<hr/>
Total revenues	<b>27,879</b>	24,482
	<hr/>	<hr/>

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.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 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 of the Group's operations are located in the PRC and therefore no geographical segment information has been disclosed for the years presented.

## 6. PROFIT/(LOSS) FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit/(Loss) from operations has been arrived at after charging:		
Directors' remuneration ( <i>note 12</i> )	756	997
Other staff costs (excluding directors):		
Salaries and allowances	1,762	1,347
Retirement benefit scheme contributions	107	76
Total staff costs	<u>2,625</u>	<u>2,420</u>
Auditors' remuneration	315	320
Depreciation of owned fixed assets	90	85
Management fee	–	1,242
Operating lease rentals in respect of land and buildings	1,256	1,077
Net exchange losses	<u>65</u>	<u>91</u>

## 7. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within one year	<u>4,742</u>	<u>6,000</u>

## **8. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings per share for the year is based on the net profit attributable to shareholders of approximately HK\$150,000 (2003: net loss of approximately HK\$9,665,000) and on the weighted average number of 800,000,000 ordinary shares (2003: 800,000,000 ordinary shares) in issue or deemed to be in issue throughout the years presented.

Diluted earnings/(loss) per share has not been disclosed as there were no dilutive potential ordinary shares outstanding during the years ended 31 March 2004 and 2003.

## **9. DIVIDENDS**

No interim dividend was paid during the year (2003: Nil). The directors do not recommend the payment of any final dividend for the year (2003: Nil).

## **10. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS**

The consolidated net profit attributable to shareholders of approximately HK\$150,000 (2003: net loss of approximately HK\$9,665,000) includes a net loss of approximately HK\$16,629,000 (2003: HK\$3,672,000) which has been dealt with in the financial statements of the Company.

## **11. TAXATION**

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

The PRC income tax is calculated at a rate of 33% on the assessable profits arising in the PRC. No provision for PRC income tax has been made as there was no assessable profit during the year.

Under the Implementation Regulations on the Provisional Regulations of the PRC on Land Appreciation Tax ("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 were approved in 1993, accordingly, there was no LAT exposure to the Group for the period from 1 April 1998 to 31 December 2000.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 11. TAXATION (Continued)

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 tax has not been provided for in the financial statements as the amounts involved are not significant (2003: Nil).

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
<b>Directors</b>		
Directors' fees:		
Executive directors	–	–
Independent non-executive directors	–	–
	<hr/>	<hr/>
	–	–
	<hr/>	<hr/>
Other emoluments to executive directors:		
Salaries and allowances	744	965
Retirement benefit scheme contributions	12	32
	<hr/>	<hr/>
	756	997
	<hr/>	<hr/>
Total directors' remunerations	<u>756</u>	<u>997</u>

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

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (*Continued*)

### Employees

The five highest paid individuals included two directors (2003: three directors) whose emoluments are set out above. The emoluments of the remaining three (2003: two) highest paid, non-director individuals for the year were as follows:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and allowances	<b>354</b>	335
Retirement benefit scheme contributions	<b>11</b>	10
	<b><u>365</u></b>	<u>345</u>

The aggregate emoluments of each of the above highest paid, non-director individuals 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 individuals, 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.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 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 have been granted and/or exercised since the adoption of the Scheme.

## 15. INVESTMENT PROPERTIES

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
As at 1 April 2003/2002	<b>76,500</b>	95,800
Transferred from/(to) completed properties held for sale	<b>48,700</b>	(18,678)
	<b>125,200</b>	77,122
Revaluation increase/(decrease) ( <i>note 25</i> )	<b>89,000</b>	(622)
As at 31 March 2004/2003	<b>214,200</b>	76,500

- (a) Pursuant to three transfer contracts dated 12 March 2004 (the “Property Transfer Contracts”), investment properties with an aggregate value of HK\$125,200,000 were transferred from Dalian Dong Gang Real Estate Development Co., Ltd. (“Dalian Dong Gang”), a subsidiary of the Company which was disposed of by the Group on 23 March 2004, to the Company’s wholly-owned subsidiary, Konrich (Asia) Limited (“Konrich”), at an aggregate consideration of HK\$125,200,000. Such investment properties were revalued to approximately HK\$214,200,000 as at 31 March 2004. As of the date of approval of these financial statements, the transfer of the property title (including land use rights) was pending for the completion of relevant registration procedures with the relevant PRC government authorities. The directors believe that the procedures for the transfer will be completed within 6 months from the date of the relevant agreement.

Pursuant to the conditional sale and purchase agreement dated 23 March 2004 (the “Share Transfer Agreement”), Sino Prosper Group Limited, a wholly-owned subsidiary of the Company, disposed of two subsidiaries of the Company, namely, Better Best Limited and World Giant Investments Holdings Limited, to Sun Asset Group Limited, an independent third party, at a consideration of HK\$8,000,000. Better Best Limited was an investment holding company, the principal asset of which was its holding of 95% interest in the entire registered capital of Dalian Dong Gang. Details of the disposal of Better Best Limited and World Giant Investments Holdings Limited are set out in the circular issued by the Company dated 9 June 2004.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 15. INVESTMENT PROPERTIES (Continued)

As at 31 March 2004, the Group's investment properties with an aggregate revalued amount of approximately HK\$126,090,000 were pledged in favour of a bank in the PRC (the "Bank") to secure a loan of approximately RMB70,940,000 (equivalent to approximately HK\$66,723,000) granted by the Bank to the Company's former subsidiary, Dalian Dong Gang, pursuant to the bank loan agreement and pledge agreement (together, the "Pledge Agreements") signed between Dalian Dong Gang and the Bank. According to the bank confirmation received from the Bank, the loan balance amounted to RMB70,940,000 as at 31 March 2004. As of the date of approval of these financial statements, Dalian Dong Gang was still in the process of negotiating with the Bank for renewal of the bank loan and the Bank has not yet released the pledge over the relevant investment properties. The Company has obtained a confirmation dated 28 July 2004 from Dalian Dong Gang which confirms that, inter alia, Dalian Dong Gang has complied with the terms of the Pledge Agreements, including the repayment of loan principal and interest in accordance with the terms of the Pledge Agreements.

According to the legal opinion provided by the Company's PRC legal advisors on 23 July 2004, the following matters, inter alia, were confirmed:

- (i) According to the Property Transfer Contracts, although Konrich has not yet obtained the building ownership certificates (房屋所有權証) of the relevant investment properties, Konrich has become the beneficial owner of the relevant investment properties commencing from the date of signing of the Property Transfer Contracts and the ownership of the relevant investment properties vested with Konrich, and that Dalian Dong Gang only held the relevant investment properties on behalf of Konrich in the capacity of a trustee. Before Konrich obtains the building ownership certificates (房屋所有權証) of the relevant investment properties, Dalian Dong Gang would act on behalf of Konrich to sell and/or lease out the relevant investment properties and is required to inform Konrich on a regular basis in respect of these sale and/or lease transactions, and all income arising from such transactions, including sales proceeds from the sales of the relevant investment properties, rental income from the lease of the relevant investment properties and any other related income would belong to Konrich as the beneficial owner of the relevant investment properties.

## 15. INVESTMENT PROPERTIES (Continued)

- (ii) Pursuant to the Pledge Agreements, certain investment properties held by Konrich were pledged in favour of the Bank as security for a loan of RMB70,940,000 granted by the Bank to Dalian Dong Gang. Dalian Dong Gang is obliged, before the Bank releases the relevant pledge, to comply with the terms of the Pledge Agreements, including the repayment of loan principal and interest in accordance with the terms of the Pledge Agreements, in order to prevent the pledged investment properties from seizure by the Bank and/or restriction from use arising from a breach of the terms of the Pledge Agreements. If Dalian Dong Gang is in breach of the terms of the Pledge Agreements which cause any losses to Konrich, Konrich has the right to pursue claims against Dalian Dong Gang, and Dalian Dong Gang is required to compensate Konrich for any such losses.

Taking into account (i) the directors' belief that the procedures for the transfer of the property title of the relevant investment properties will be completed within 6 months from the date of the relevant agreement; (ii) the legal opinion provided by the Company's PRC legal advisors on 23 July 2004 which confirms, inter alia, that Konrich is the beneficial owner of the investment properties in accordance with the Property Transfer Contracts; and (iii) the confirmation dated 28 July 2004 from Dalian Dong Gang which confirms that Dalian Dong Gang has complied with the terms of the Pledge Agreements, including the repayment of loan principal and interest in accordance with the terms of the Pledge Agreements, the directors of the Company are satisfied that (i) the beneficial ownership of the investment properties vested with the Group and that it is appropriate to recognise the investment properties in the financial statements of the Group as at 31 March 2004; and (ii) Dalian Dong Gang has complied with the terms of the Pledge Agreements and accordingly no provision has been made in the financial statements of the Group as at 31 March 2004 for any liabilities which may arise from the above security given by the Group.

- (b) The investment properties were revalued at their open market value at 31 March 2004 by an independent firm of surveyors, Castores Magi (Hong Kong) Limited, who have among their staff Registered Professional Surveyors, on an open market value basis. This valuation results in a revaluation increase of approximately HK\$89,000,000 (2003: a revaluation decrease of approximately HK\$622,000) which has been taken to the investment properties revaluation reserve. The carrying value of investment properties includes land in the PRC under medium-term lease.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 15. INVESTMENT PROPERTIES (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Within one year	519	582
In the second to fifth year inclusive	–	241
	<u>519</u>	<u>823</u>

## 16. FIXED ASSETS

	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>At cost:</b>			
As at 1 April 2003	347	262	609
Additions	–	307	307
Through disposal of subsidiaries	(347)	(550)	(897)
	<u>–</u>	<u>19</u>	<u>19</u>
<b>As at 31 March 2004</b>			
<b>Accumulated depreciation:</b>			
As at 1 April 2003	300	144	444
Charge for the year	47	43	90
Through disposal of subsidiaries	(347)	(182)	(529)
	<u>–</u>	<u>5</u>	<u>5</u>
<b>As at 31 March 2004</b>			
<b>Net book value:</b>			
<b>As at 31 March 2004</b>	<u>–</u>	<u>14</u>	<u>14</u>
As at 31 March 2003	<u>47</u>	<u>118</u>	<u>165</u>

## 17. INVESTMENTS IN SUBSIDIARIES

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	78	78
Amounts due from subsidiaries	4,218	20,599
Amounts due to subsidiaries	<b>(4,180)</b>	–
	<b>116</b>	<u>20,677</u>

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

Details of the Company's subsidiaries as at 31 March 2004 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Sino Prosper Group Limited	BVI	US\$10,000	100%	–	Investment holding
Access Power Group Limited	BVI	US\$1	–	100%	Provision for marketing and subcontracting services
Joint Profit Group Limited 駿港集團有限公司	Hong Kong	HK\$2	–	100%	Provision of administrative services
Konrich (Asia) Limited * 康裕(亞洲)有限公司	Hong Kong	HK\$2	–	100%	Investment holding
Lighting Charm Limited	BVI	US\$2	–	100%	Investment holding

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 17. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Sino Prosper Gas Limited * 中盈燃氣有限公司	Hong Kong	HK\$2	–	100%	Investment holding
Sino Prosper Gas (Luoyang) Limited * 中盈燃氣(洛陽)有限公司	BVI	US\$1	–	100%	Investment holding
Sino Prosper Medical Technology Limited * 中盈醫藥科技有限公司	Hong Kong	HK\$2	–	100%	Investment holding

\* Konrich (Asia) Limited, Sino Prosper Gas Limited, Sino Prosper Gas (Luoyang) Limited and Sino Prosper Medical Technology Limited were incorporated by the Company during the year ended 31 March 2004.

Details of the subsidiaries disposed of by the Group during the year ended 31 March 2004 were as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest previously held by the Company		Principal activities
			Direct	Indirect	
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

## 17. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest previously held by the Company Indirect	Principal activities
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
Sino Prosper Group Investments Limited (note (c)) 中盈集團投資有限公司	Hong Kong	HK\$2	100%	Inactive
Better Best Limited (note (d)) 首冠有限公司	BVI	US\$1	100%	Investment holding
World Giant Investments Holdings Limited 世鉅投資控股有限公司	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 under the laws of the PRC and was 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 under the laws of the PRC and was owned as to 95% by Better Best Limited.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 17. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

- (c) Pursuant to the sale and purchase agreement dated 12 February 2004, the Group disposed of its entire equity interests in Sino Prosper Group Investments Limited at a cash consideration of RMB5,000,000 (equivalent to approximately HK\$4,717,000), further details of which are set out in note 27 to the financial statements. The net loss of Sino Prosper Group Investments Limited for the period from 1 April 2003 to 12 February 2004 (date of disposal), which has been included in the Group's consolidated income statement, amounted to approximately HK\$21,000, representing administrative expenses.
- (d) Pursuant to the conditional sale and purchase agreement dated 23 March 2004, the Group disposed of its entire equity interests in Better Best Limited and World Giant Investments Holdings Limited at a consideration of HK\$8,000,000, to Sun Asset Group Limited. The consideration is satisfied as to HK\$4,000,000 in cash and as to the remaining balance of HK\$4,000,000 by the purchaser issuing a secured promissory note in favour of the Group for the sum of HK\$4,000,000. All amount outstanding under the secured promissory note shall be repaid in one lump sum on 31 December 2004. The performance of the purchaser of its obligations under the secured promissory note is secured by a first fixed charge over the sale shares created by the purchaser in favour of the Group. Details of the disposal of Better Best Limited and World Giant Investments Holdings Limited are set out in the circular issued by the Company dated 9 June 2004.

The aggregate consolidated results of Better Best Limited and World Giant Investments Holdings Limited and their respective subsidiaries for the period from 1 April 2003 to 23 March 2004 (date of disposal), which have been included in the Group's consolidated income statement, were as follows:

<b>Better Best Limited and World Giant Investments Holdings Limited and their respective subsidiaries</b>	<b>Period from 1 April 2003 to 23 March 2004 HK\$'000</b>
Turnover	27,831
Cost of sales	(19,932)
Gross profit	7,899
Other revenues	47
Selling expenses	(765)
Administrative expenses	(5,289)
Profit from operations	1,892
Finance costs	(4,742)
Loss after taxation and before minority interests	(2,850)
Minority interests	(5,399)
Loss after taxation and minority interests	(8,249)

## 17. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

- (e) Details of the aggregate carrying amount of the assets and liabilities of Sino Prosper Group Investments Limited, Better Best Limited and World Giant Investments Holdings Limited and their respective subsidiaries as at the respective dates of disposal and the gain on disposal are set out in note 27 to the financial statements.

## 18. INVESTMENT IN AN ASSOCIATE

Details of the Group's associate as at 31 March 2004 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

	2004 HK\$'000	2003 HK\$'000
<b>(a) Investment in an associate</b>		
Unlisted shares, at cost	–	–
Amount due from an associate	331	50
Amount as shown in the consolidated balance sheet	331	50
Share of post-acquisition results as shown in note (b)	–	–
	<b>331</b>	<b>50</b>

As at 31 March 2003 and 2004, the Company held 29% of the issued share capital of Bekwin International Ltd ("Bekwin"), a company incorporated in the BVI with limited liability, through its wholly-owned subsidiary, Lighting Charm Limited. Lighting Charm Limited is a subscriber and a director of Bekwin. During the year ended 31 March 2004, Bekwin has not commenced any business and 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.

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 18. INVESTMENT IN AN ASSOCIATE (Continued)

### (a) Investment in an associate (Continued)

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

### (b) Results of the associate

	2004 HK\$'000	2003 HK\$'000
Share of loss on ordinary activities before taxation	70	28
Share of taxation	—	—
	<hr/>	<hr/>
Net loss attributable to the Group	70	28
Excess portion of loss sharing over cost of investment	(70)	(28)
	<hr/>	<hr/>
Share of post-acquisition losses as at 31 March 2004/2003	—	—
	<hr/> <hr/>	<hr/> <hr/>

The results of the associate are based on its unaudited management accounts for the year ended 31 March 2004. The Group's share of loss of the associate would have been limited to its cost of investment of US\$29, equivalent to approximately HK\$226, if the equity method had been applied.

## 19. PROPERTIES UNDER DEVELOPMENT

	2004 HK\$'000	2003 HK\$'000
As at 1 April 2003/2002, at cost	92,310	92,284
Exchange realignment	(208)	26
Disposal through disposal of subsidiaries (note 27)	(92,102)	—
	<hr/>	<hr/>
As at 31 March 2004/2003, at cost	—	92,310
	<hr/> <hr/>	<hr/> <hr/>

## 20. TRADE RECEIVABLES

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 – 90 days	<u>–</u>	<u>6,144</u>

## 21. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

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

## 22. TRADE PAYABLES

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
1 – 2 years	<u>–</u>	<u>30,072</u>

## 23. AMOUNT DUE TO A RELATED COMPANY

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

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 24. SHARE CAPITAL

	Number of shares	Amount HK\$
<b>Authorised:</b>		
<i>Ordinary shares of HK\$0.10 each:</i>		
As at date of incorporation, as at 31 March 2002 and as at 1 April 2002 (a)	1,000,000	100,000
Share sub-division (b)	9,000,000	–
	<hr/>	<hr/>
<i>Ordinary shares 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/>
<b>As at 31 March 2003 and as at 31 March 2004</b>	<b><u>20,000,000,000</u></b>	<b><u>200,000,000</u></b>
<b>Issued and fully paid:</b>		
<i>Ordinary shares 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/>
As at 31 March 2002 and as at 1 April 2002	1,000,000	–
Share sub-division (b)	9,000,000	–
	<hr/>	<hr/>
<i>Ordinary shares 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/>
	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/>
<b>As at 31 March 2003 and as at 31 March 2004</b>	<b><u>800,000,000</u></b>	<b><u>8,000,000</u></b>

## 24. SHARE CAPITAL (*Continued*)

### *Notes:*

- (a) The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company on 26 October 2001 with an initial 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 by Codan Trust Company (Cayman) Limited on the same date to Climax Park.
- (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 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 shares with a nominal value of HK\$0.01 each.
- (d) Pursuant to another 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 19,980,000,000 shares with a nominal value of HK\$0.01 each.
- (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 (i) allotting and issuing 10,000,000 shares to Climax Park credited as fully paid at par, and (ii) crediting as fully paid at par the 10,000,000 nil paid shares then held by Climax Park.
- (f) On 9 May 2002, 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 25). 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 shareholdings in the Company.

# Notes to the Financial Statements

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(Expressed in Hong Kong dollars)

## 25. RESERVES

Group	Share premium HK\$'000	Translation reserve HK\$'000	Revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As 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 24(f))	31,200	–	–	–	31,200
Share issue expenses (note 24(f))	(8,335)	–	–	–	(8,335)
Capitalisation of share premium (note 24(g))	(6,500)	–	–	–	(6,500)
Net loss for the year	–	–	–	(9,665)	(9,665)
As at 31 March 2003 and as at 1 April 2003	16,365	(13,405)	35,117	70,386	108,463
Exchange differences arising from translation of financial statements of the overseas operations	–	165	–	–	165
Released on disposals of the overseas operations (note 27)	–	13,240	–	–	13,240
Revaluation increase (note 15)	–	–	89,000	–	89,000
Net profit for the year	–	–	–	150	150
<b>As at 31 March 2004</b>	<b>16,365</b>	<b>–</b>	<b>124,117</b>	<b>70,536</b>	<b>211,018</b>

## 25. RESERVES (Continued)

Company	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2002	–	–	–
Issue of shares through the Placing and the Public Offer ( <i>note 24(f)</i> )	31,200	–	31,200
Share issue expenses ( <i>note 24(f)</i> )	(8,335)	–	(8,335)
Capitalisation of share premium ( <i>note 24(g)</i> )	(6,500)	–	(6,500)
Net loss for the year	–	(3,672)	(3,672)
As at 31 March 2003 and as at 1 April 2003	16,365	(3,672)	12,693
Net loss for the year	–	(16,629)	(16,629)
<b>As at 31 March 2004</b>	<b><u>16,365</u></b>	<b><u>(20,301)</u></b>	<b><u>(3,936)</u></b>

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2004 HK\$'000	2003 HK\$'000
<b>Profit/(Loss) from operations before taxation and minority interests</b>	<b>3,701</b>	(9,901)
Adjustments for:		
Bank interest income	–	(16)
Depreciation	90	85
Gain on disposal of subsidiaries	(10,609)	–
Finance costs	4,742	6,000
	<hr/>	<hr/>
Operating loss before changes in working capital	(2,076)	(3,832)
Changes in working capital:		
Completed properties held for sale	13,795	12,314
Trade receivables	(14,132)	29,313
Other receivables and prepayments	(55,561)	4,586
Amount due from ultimate holding company	(6)	(13)
Trade payables	(4,910)	(59,760)
Other payables and accruals	73,039	5,039
Amount due to a director	–	(2,014)
Amount due to a related company	(4)	(17)
	<hr/>	<hr/>
Net cash generated from/(used in) operations	10,145	(14,384)
Bank interest received	–	16
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	<b>10,145</b>	<b>(14,368)</b>

### 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) 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 (i) allotting and issuing 10,000,000 shares to Climax Park credited as fully paid at par, and (ii) crediting as fully paid at par the 10,000,000 nil paid shares then held by Climax Park.

## 27. DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2004, the Group disposed of its entire equity interests in Sino Prosper Group Investments Limited, Better Best Limited and World Giant Investments Holdings Limited, at an aggregate consideration of approximately HK\$12,717,000. Further details of the subsidiaries disposed of are disclosed in note 17 to the financial statements. The aggregate gain of approximately HK\$10,609,000 arising from the disposal of these subsidiaries, being the difference between the aggregate proceeds of the disposal and the aggregate carrying amount of the net assets/(liabilities) of these subsidiaries as at the respective dates of disposal, has been taken to the consolidated income statement. No tax charge or credit arose from the transactions. The aggregate carrying amounts of the assets and liabilities of the subsidiaries disposed of as at the respective dates of disposal were as follows:

	<i>HK\$'000</i>
<b>Net liabilities disposed of:</b>	
Fixed assets	368
Interest in a jointly controlled entity	4,257
Completed properties held for sale	13,997
Deposit paid	29,915
Properties under development	92,102
Trade and other receivables and prepayments	75,807
Cash and bank balances	10,384
Trade and other payables and accruals	(125,279)
Tax payable	(38,116)
Secured bank borrowings	(66,723)
Minority interests	(7,844)
	<hr/>
Group's share of net liabilities disposed of	(11,132)
Release of translation reserve ( <i>note 25</i> )	13,240
Gain on disposal of subsidiaries	10,609
	<hr/>
Total consideration	<u>12,717</u>
<b>Satisfied by:</b>	
Cash	8,717
Secured promissory note receivable on 31 December 2004 ( <i>note 17(d)</i> )	4,000
	<hr/>
Total consideration	12,717
Less: secured promissory note receivable on 31 December 2004	(4,000)
Less: consideration receivable from the disposal of Sino Prosper Group Investments Limited included in "other receivables and prepayments"	(1,817)
	<hr/>
Cash consideration received as at 31 March 2004	6,900
Less: Cash and bank balances disposed of	(10,384)
	<hr/>
<b>Net cash outflow arising on disposal of subsidiaries</b>	<u>(3,484)</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

(Expressed in Hong Kong dollars)

## 28. OPERATING LEASE COMMITMENTS

As at 31 March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	–	1,023
In the second to fifth year inclusive	–	2,162
	<u>–</u>	<u>3,185</u>

As at 31 March 2004, the Company had no commitments under operating leases (2003: Nil).

## 29. MANAGEMENT FEE COMMITMENTS

As at 31 March 2004, the Group and the Company had no commitments under non-cancellable management fee agreements (2003: Nil).

## 30. OTHER COMMITMENTS

	2004 HK\$'000	2003 HK\$'000
Expenditure contracted for but not provided for in the financial statements in respect of acquisition of land in the PRC	<u>–</u>	<u>3,224</u>

## 31. BANKING FACILITIES

As at 31 March 2004, the Group had no banking facilities.

As at 31 March 2003, the secured bank borrowings represented a bank loan granted to the Group's former subsidiary amounting to approximately HK\$70,874,000, which was secured by a pledge over the Group's investment properties and completed properties held for sale with carrying values as at 31 March 2003 of approximately HK\$76,500,000 and HK\$27,968,000 respectively, and corporate and personal guarantees granted by the Company and an executive director of the Company respectively.

## 32. CONTINGENT LIABILITIES

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Penalties for late completion of properties (a)	–	8,471
Guarantees given to a bank in respect of mortgage facilities granted to purchasers for the acquisition of the properties (b)	–	80,175
	<hr/>	<hr/>
Total contingent liabilities	–	88,646
	<hr/> <hr/>	<hr/> <hr/>

*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.

## 33. AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 July 2004.

# Financial Summary

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	Year ended 31 March				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
<b>Results</b>					
Turnover	44,981	70,007	113,318	24,427	27,831
Cost of sales	(21,293)	(33,144)	(53,648)	(15,282)	(19,932)
Gross profit	23,688	36,863	59,670	9,145	7,899
Other revenue	29	36	154	55	48
Gain on disposal of subsidiaries	–	–	–	–	10,609
Selling expenses	(52)	(1,326)	(364)	(304)	(765)
Administrative expenses	(1,940)	(4,398)	(5,588)	(12,797)	(9,348)
Profit/(Loss) from operations	21,725	31,175	53,872	(3,901)	8,443
Loss on disposal of a 5% interest in a subsidiary	–	(438)	–	–	–
Finance costs	–	–	(846)	(6,000)	(4,742)
Profit/(Loss) before taxation	21,725	30,737	53,026	(9,901)	3,701
Taxation	(5,029)	(8,359)	(24,241)	–	–
Profit/(Loss) before minority interests	16,696	22,378	28,785	(9,901)	3,701
Minority interests	(204)	(408)	(1,019)	236	(3,551)
Net profit/(loss) attributable to shareholders	16,492	21,970	27,766	(9,665)	150
Earnings/(Loss) per share – basic	2.46 cents	3.28 cents	4.14 cents	(1.21) cents	0.02 cents
<b>As at 31 March</b>					
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
<b>Assets and Liabilities</b>					
Total assets	222,905	250,954	341,848	292,335	224,376
Total liabilities	(206,105)	(209,349)	(224,624)	(171,587)	(5,358)
Minority interests	–	(2,763)	(6,161)	(4,285)	–
Shareholders' funds	16,800	38,842	111,063	116,463	219,018

*Notes:*

1. The Company was incorporated in the Cayman Islands on 26 October 2001 and became the holding company of the companies now comprising the Group on 25 April 2002 pursuant to a group reorganisation in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
2. The proforma results of the Group for each of the two years ended 31 March 2001 presented above have been extracted from the Company's prospectus issued on 30 April 2002 in connection with the listing of the Company's shares on the Stock Exchange.
3. The financial summary of the Group has been included for information only and has been prepared on a combined basis as if the current group structure had been in existence throughout those years.

# Particulars of Properties Held by the Group

Name/Location	Type	Stage of completion	Effective % held	Lease term	Gross floor area (square metres)	Anticipated completion
<b>Investment properties</b>						
Dalian Asia Pacific Finance Centre No. 55, Ren Min Road, Zhong Shan District, Dalian City, Liaoning Province, the PRC	Residential and commercial	Completed	100%	Medium-term	9,686	–