

Notes to the Financial Statements

1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

(i) The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December each year.

(ii) Results of new subsidiaries are included from the respective dates of acquisition. Results of subsidiaries disposed of during the year are included up to the respective dates of disposal.

(iii) Goodwill arising on consolidation, representing the excess of the cost of investments in subsidiaries and associates over the appropriate share of the fair value of the separable net assets at date of acquisition, is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses. On disposal of a subsidiary or associate, the attributable amount of goodwill is included in calculating the profit or loss on disposal.

(d) Investments in subsidiaries

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

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Investments in subsidiaries (Continued)

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it 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 Group, in which case, it is accounted for in accordance with note 1(f).

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)), unless it 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 accounted for in accordance with note 1(f).

(e) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is accounted for in accordance with note 1(f). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case, they are recognised immediately in the consolidated profit and loss account.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (see note 1(k)), unless acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair the associate's ability to transfer funds to the investor, in which case, such investments are accounted for in accordance with note 1(f).

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investments in securities

- (i) Held-to-maturity securities are stated in the consolidated balance sheet at amortised cost less any provisions for diminution in value.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as expenses in the consolidated profit and loss account, such provisions being determined for each security individually.

- (ii) Non-trading securities are classified as long term investments in the consolidated balance sheet and stated at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated profit and loss account.

Transfers from the investment revaluation reserve to the consolidated profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment ceased to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

- (iii) Trading securities are classified as short term investments under current assets in the consolidated balance sheet and stated at fair value. Changes in fair value are recognised in the consolidated profit and loss account as they arise.

- (iv) Gains and losses on disposal of investments in securities are accounted for in the consolidated profit and loss account as they arise. In the case of non-trading securities, the gain or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(g) Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the accounts of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the consolidated profit and loss account with the exception of those arising on the translation of the accounts of overseas subsidiaries which are dealt with in the exchange reserve.

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit and loss account as follows:

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable. Dividend income is recognised at the date at which the right to receive payment is established. Rental income is recognised on an accruals basis. Proceeds from sale of properties are recognised upon completion of the sales agreements.

(i) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the consolidated cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

(j) Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

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

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

Unallocated items mainly comprise corporate and administrative expenses and sundry income.

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that investments in subsidiaries and associates and non-trading securities may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

(l) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individual or other entities.

Notes to the Financial Statements (Continued)

2 TURNOVER/SEGMENTAL REPORTING

The Group's activities are comprised of the following two business segments:

(1) Treasury and investment:

The placing of deposits and investment in securities to generate income from interest, dividends and capital appreciation. Funds are also advanced as loans to other parties on a secured or unsecured basis where suitable opportunities are identified to earn enhanced returns.

(2) Property:

Investment and trading in property assets to generate rental income and sales proceeds. All properties of the Group were disposed of during the year ended 31 December 2000.

Turnover by segment

	2001 HK\$million	2000 HK\$million
Treasury and investment		
Interest income from		
— bank deposits	15.1	17.3
— other loans	3.7	5.1
— debt securities	2.2	4.3
Dividend income	3.0	3.6
	<u>24.0</u>	<u>30.3</u>
Property		
Rental income	—	0.2
Proceeds on sale of property	—	11.2
	<u>—</u>	<u>11.4</u>
Group turnover	<u><u>24.0</u></u>	<u><u>41.7</u></u>

Notes to the Financial Statements (Continued)

2 TURNOVER/SEGMENTAL REPORTING (Continued)

Profit/(loss) by segment

	Treasury and investment		Property		Unallocated		Total	
	2001 HK\$ million	2000 HK\$ million	2001 HK\$ million	2000 HK\$ million	2001 HK\$ million	2000 HK\$ million	2001 HK\$ million	2000 HK\$ million
Segment result	34.5	8.8	—	11.4	—	—	34.5	20.2
Share of losses of associates	—	(18.5)	—	—	—	—	—	(18.5)
Unallocated (expense)/ income	—	—	—	—	(1.7)	3.2	(1.7)	3.2
Profit before taxation	<u>34.5</u>	<u>(9.7)</u>	<u>—</u>	<u>11.4</u>	<u>(1.7)</u>	<u>3.2</u>	<u>32.8</u>	<u>4.9</u>

All operations of the Group in terms of turnover, operating profit, assets and liabilities, were in Hong Kong and accordingly no separate geographical segment information is presented.

At the balance sheet date, all assets and liabilities of the Group were related to the treasury and investment activities. As all properties of the Group were disposed of during 2000, no segment information in respect of property assets and liabilities is presented.

Notes to the Financial Statements (Continued)

3 OTHER NET INCOME/(LOSS)

	2001 HK\$million	2000 HK\$million
Net realised gain/(loss) on disposal of securities, net of surplus transferred from investment revaluation reserve of HK\$2.7 million (2000: deficit HK\$22.4 million)	10.3	(21.5)
Write-back of provision for expenses relating to discontinued shipping operations	—	7.0
Write-back of unclaimed dividends	0.4	—
Other income	0.2	—
	<u>10.9</u>	<u>(14.5)</u>

4 OPERATING PROFIT

	2001 HK\$million	2000 HK\$million
(a) Operating profit is arrived at after charging:		
Auditors' remuneration	<u>0.6</u>	<u>0.5</u>
and crediting:		
Rental income less outgoings	<u>—</u>	<u>0.2</u>

(b) Directors' emoluments

For the year under review, total emoluments (including any reimbursement of expenses) amounting to HK\$300,000 (2000: HK\$44,837), being wholly in the form of Directors' fees, were paid/payable to Independent Non-executive Directors of the Company.

Notes to the Financial Statements (Continued)

5 TAXATION (CHARGE)/CREDIT

(a) Taxation (charge)/credit in the consolidated profit and loss account represents:

	2001 HK\$million	2000 HK\$million
The Company and subsidiaries		
Hong Kong Profits Tax		
— current year	(0.2)	(0.9)
— overprovision in respect of prior years	—	5.0
	<u>(0.2)</u>	<u>4.1</u>

The current year provision for Hong Kong Profits Tax represents 16% of the Group's assessable profit for the year.

(b) No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a profit of HK\$226.9 million (2000: HK\$141.7 million).

7 DIVIDENDS

(a) Dividends attributable to the year

	2001 HK\$million	2000 HK\$million
Interim dividend (2000: 25 cents per share)	<u>—</u>	<u>7.3</u>

Notes to the Financial Statements (Continued)

7 DIVIDENDS (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2001 HK\$million	2000 HK\$million
Final dividend in respect of the previous financial year, approved and paid during the year (2000: 45 cents per share)	<u>—</u>	<u>13.2</u>

8 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders for the year of HK\$32.6 million (2000: HK\$9.0 million) and 29,282,000 shares in issue throughout the year and the preceding year. There were no dilutive potential ordinary shares in existence during the year.

9 CHANGE IN ACCOUNTING POLICY

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the Directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries and associates is recognised as income in the Company's profit and loss account in the accounting period in which the right to receive payment is established.

There is no impact on the Group's net assets and profit attributable to shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

Notes to the Financial Statements (Continued)

10 INVESTMENTS

(a) Long term investments

	Group	
	2001 HK\$million	2000 HK\$million
Non-trading securities		
Equity securities listed in Hong Kong	214.3	103.0
Unlisted convertible notes	48.7	—
	263.0	103.0
	263.0	103.0

The above portfolio comprises securities mainly of conglomerates, financial services, trading and manufacturing groups.

Unlisted convertible notes are issued by a company listed in Hong Kong, bearing interest at a rate of 7.5% per annum and maturing on 4 July 2004. The notes may be converted to ordinary shares at any time from the date of issue up to 19 June 2004. In the event of full conversion of the convertible notes, and on the assumption that there are no other changes in the capital structure of the issuer, the Group would hold approximately between 10% and 14% of the enlarged issued share capital of that listed company, depending on the conversion price(s) at the date(s) of conversion. The issuer may redeem the notes at 105% of the outstanding principal amount at any time up to 19 June 2004.

(b) Short term investments

	Group	
	2001 HK\$million	2000 HK\$million
Held-to-maturity securities listed outside Hong Kong	—	5.0
Market value of listed investments	—	5.0
	—	5.0

Notes to the Financial Statements (Continued)

11 DEBTORS

Debtors comprise interest receivable and sundry prepayments.

12 CREDITORS

Creditors comprise accrued expenses and sundry payables.

13 SHARE CAPITAL

	2001 HK\$million	2000 HK\$million
Authorised:		
100,000,000 ordinary shares of HK\$4 each	<u>400.0</u>	<u>400.0</u>
Issued and fully paid:		
29,282,000 ordinary shares of HK\$4 each	<u>117.1</u>	<u>117.1</u>

Notes to the Financial Statements (Continued)

14 RESERVES

	Share premium HK\$million	Investment revaluation reserve HK\$million	Revenue reserve HK\$million	Total HK\$million
(a) The Group				
Company and subsidiaries				
Balance at 1 January 2000				
— as previously reported	39.3	(13.8)	468.2	493.7
— prior period adjustment in respect of dividend proposed (<i>note 9</i>)	—	—	13.2	13.2
— as restated	39.3	(13.8)	481.4	506.9
Dividend approved in respect of the previous year (<i>note 7(b)</i>)	—	—	(13.2)	(13.2)
Revaluation deficit transferred to the consolidated profit and loss account on disposal of non-trading securities	—	22.4	—	22.4
Revaluation deficit of non-trading securities	—	(6.1)	—	(6.1)
Profit for the year	—	—	7.8	7.8
Dividend declared in respect of the current year (<i>note 7(a)</i>)	—	—	(7.3)	(7.3)
Balance at 31 December 2000 and 1 January 2001	39.3	2.5	468.7	510.5
Revaluation surplus transferred to the consolidated profit and loss account on disposal of non-trading securities	—	(2.7)	—	(2.7)
Revaluation surplus of non-trading securities	—	10.5	—	10.5
Profit for the year	—	—	32.6	32.6
Balance at 31 December 2001	39.3	10.3	501.3	550.9

Notes to the Financial Statements (Continued)

14 RESERVES (Continued)

	Share premium HK\$million	Investment revaluation reserve HK\$million	Revenue reserve HK\$million	Total HK\$million
(a) The Group (Continued)				
Associates				
Balance at 1 January 2000	—	7.4	(1.2)	6.2
Revaluation deficit of non-trading securities	—	(27.1)	—	(27.1)
Transfer from the consolidated profit and loss account on disposal of associates	—	19.7	1.2	20.9
	<u>—</u>	<u>19.7</u>	<u>1.2</u>	<u>20.9</u>
Balance at 31 December 2000 and 31 December 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total reserves				
At 31 December 2001	<u>39.3</u>	<u>10.3</u>	<u>501.3</u>	<u>550.9</u>
At 31 December 2000	<u>39.3</u>	<u>2.5</u>	<u>468.7</u>	<u>510.5</u>

Notes to the Financial Statements (Continued)

14 RESERVES (Continued)

	Share premium HK\$million	Investment revaluation reserve HK\$million	Revenue reserve HK\$million	Total HK\$million
(b) Company				
Balance at 1 January 2000				
— as previously reported	39.3	—	21.4	60.7
— prior period adjustment in respect of dividend proposed (<i>note 9</i>)	—	—	13.2	13.2
— as restated	39.3	—	34.6	73.9
Dividends approved in respect of the previous year (<i>note 7(b)</i>)	—	—	(13.2)	(13.2)
Profit for the year	—	—	141.7	141.7
Dividends declared in respect of the current year (<i>note 7(a)</i>)	—	—	(7.3)	(7.3)
Balance at 31 December 2000 and 1 January 2001	39.3	—	155.8	195.1
Profit for the year	—	—	226.9	226.9
Balance at 31 December 2001	39.3	—	382.7	422.0

Reserves of the Company available for distribution to shareholders amounted to HK\$382.7 million (2000: HK\$155.8 million) at the balance sheet date.

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

The investment revaluation reserve is dealt with in accordance with the accounting policies adopted for the revaluation of non-trading securities.

Notes to the Financial Statements (Continued)

15 INTERESTS IN SUBSIDIARIES

	2001 HK\$million	2000 HK\$million
Unlisted shares, at cost less provision	0.1	0.1
Amounts due by subsidiaries	540.1	558.7
	<u>540.2</u>	<u>558.8</u>
Amounts due to subsidiaries	(0.3)	(245.7)
	<u>539.9</u>	<u>313.1</u>

Notes to the Financial Statements (Continued)

15 INTERESTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31 December 2001, all of which are wholly-owned, are as follows:

Subsidiaries	Place of incorporation/ operation	Issued and fully paid up share capital (all being ordinary shares)	Principal activities
<i>(held directly)</i>			
I-Active Investments Limited	British Virgin Islands/International	1 share of US\$1 each	Holding company
Maxfull Limited	British Virgin Islands/International	1 share of US\$1 each	Inactive
Willthorn Investments Limited	British Virgin Islands/International	500 shares of US\$1 each	Holding company
<i>(held indirectly)</i>			
Absolute Profits Limited	British Virgin Islands/International	1 share of US\$1 each	Inactive
Beauforte Finance (International) Limited	Cayman Islands/ International	500 shares of US\$1 each	Inactive
Beauforte Holdings Limited	Hong Kong	45,000,000 shares of HK\$1 each	Dormant
Gold East Limited	British Virgin Islands/International	1 share of US\$1 each	Inactive
Lambda Company Limited	Hong Kong	2 shares of HK\$1 each	Investment
Leader Investment Limited	Hong Kong	2 shares of HK\$1 each	Inactive
Ocean Pearl Investments Limited	British Virgin Islands/International	1 share of US\$1 each	Inactive

Notes to the Financial Statements (Continued)

15 INTERESTS IN SUBSIDIARIES (Continued)

<u>Subsidiaries</u>	<u>Place of incorporation/ operation</u>	<u>Issued and fully paid up share capital (all being ordinary shares)</u>	<u>Principal activities</u>
Splendid Rewards Limited	British Virgin Islands/International	500 shares of US\$1 each	Investment
United Crown Enterprises Limited	Hong Kong	2 shares of HK\$1 each	Investment
Vason Enterprises Limited	Hong Kong	2 shares of HK\$1 each	Investment
Wincom Investments Limited	Hong Kong	2 shares of HK\$1 each	Lending
Workshop Holdings Limited	British Virgin Islands/International	500 shares of US\$1 each	Investment

16 MATERIAL RELATED PARTY TRANSACTIONS

During the year, no material related party transactions were entered into by the Group.

During 2000, the Group made advances of up to HK\$150.0 million to a related party with interest at market rates. Interest income received from the related party amounted to HK\$5.1 million during the year ended 31 December 2000. The advances were fully repaid during 2000.

During 2000, the Group earned HK\$7.6 million of dividend and interest income from investments in related parties.

17 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 12 April 2002.