

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

1. CORPORATE INFORMATION

The registered office of the Company is located at the office of Caledonian Bank & Trust Limited, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands, British West Indies.

During the year, the Group was involved in the following principal activities:

- Provision of travel and travel-related services
- Property development
- Provision of property agency services
- Hotel investment and hotel management

In addition, the Group acquired a majority equity interest in Kerry Financial Services Limited, which was subsequently renamed Morning Star Financial Services Limited ("MSFS"), on 30th December, 2000. MSFS and its subsidiaries are engaged in the provision of financial services and securities broking.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its Board of Directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the Directors, there have been permanent diminutions in values, when they are written down to values determined by the Directors.

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Associates

An associate is a company, not being a subsidiary or jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for permanent diminutions in values other than temporary deemed necessary by the Directors.

Joint ventures

A joint venture is a contractual arrangement where the Group and other parties undertake an economic activity which is subject to joint control with none of the participating parties having unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of post-acquisition results and reserves of jointly-controlled entities are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting less any provisions for diminution in values other than those considered to be temporary in nature deemed necessary by the Directors.

Goodwill/capital reserve

Goodwill arising on consolidation of subsidiaries and on acquisition of associates and jointly-controlled entities represents the excess purchase consideration paid for the subsidiaries, associates or jointly-controlled entities over the fair values ascribed to the net underlying assets acquired and is written off to reserves in the year of acquisition. Capital reserve represents the excess of the fair values ascribed to the net underlying assets required over the purchase consideration and is credited to reserves. On disposal of subsidiaries, associates or jointly-controlled entities, the relevant portion of attributable goodwill/capital reserve previously written off/credited to reserves is written back and included in the calculation of gain or loss on disposal.

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Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Land held under long term leases	Over the remaining lease term
Buildings	2% to 5%
Office furniture, fixtures and equipment	20% to 33 ¹ / ₃ %
Hotel plant and equipment	5% to 20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to profit and loss account to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Properties under development

Properties under development are stated at cost which comprises land cost and development expenditure, less provision for diminutions in values deemed necessary by the Directors.

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Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any provisions for impairments in values deemed necessary by the Directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the Directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories, which comprise foodstuffs, liquor and other consumables, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

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Properties held for sale

Properties held for sale, consisting of completed properties and properties under development intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, associates and jointly-controlled entities are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange realignment reserve.

Retirement benefits scheme

The Group operates defined contribution retirement benefits schemes under the Mandatory Provident Fund Schemes Ordinance, for all its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect of the Mandatory Provident Fund retirement benefits scheme the Group's employer contributions vest fully with the employees when contributed into the Scheme.

Related parties

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. Related parties may be individuals or corporate entities.

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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:

- (a) income from tour services is recognised upon the departure date of each tour;
- (b) income from sales of air tickets and hotel bookings is recognised when the related tickets are issued and hotel bookings confirmed, respectively;
- (c) income from hotel operations is recognised as the related services are performed;
- (d) income from the sale of properties and the appropriate proportion of income from the pre-sale of properties under development are recognised on completion of binding sales agreements;
- (e) commission and visa income are recognised in the period in which the services are rendered;
- (f) rental income is recognised on the straight-line basis over the lease terms; and
- (g) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

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3. TURNOVER AND REVENUE

Turnover represents the net invoiced value of services rendered, hotel income, agency fee income and proceeds from the sales of properties (in the case of pre-sales of properties, proceeds from pre-sales are adjusted to reflect the stage of construction) after eliminating intra-group transactions.

An analysis of the Group's turnover and revenue, is as follows:

	2000	1999
	HK\$'000	HK\$'000
Turnover:		
Travel and travel-related services	519,521	599,402
Property development and agency services	213,788	222,789
Hotel investment and management	35,998	43,763
Others	2,120	3,213
	<u>771,427</u>	<u>869,167</u>
Other revenue:		
Interest income	4,197	3,823
Income arising from deposit on properties forfeited by purchasers	1,467	203
Visa income	1,283	1,535
Commission income	3,145	4,172
Others	2,152	6,039
	<u>12,244</u>	<u>15,772</u>
Revenue	<u>783,671</u>	<u>884,939</u>

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4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2000	1999
	HK\$'000	HK\$'000
Operating lease rentals in respect of land and buildings	11,353	14,332
Auditors' remuneration	955	1,085
Staff costs (including directors' remuneration, note 6):		
Wages and salaries	38,909	45,855
Pension contributions	1,267	1,685
Less: forfeited contributions	(667)	(363)
Net pension contributions	600	1,322
Total staff costs	39,509	47,177
Depreciation:		
Owned fixed assets	10,532	13,520
Leased fixed assets	654	677
	11,186	14,197
Cost of inventories sold	3,719	4,868
Cost of properties sold	126,709	149,099
Loss on disposal of fixed assets	811	701
Provision for diminution in value of properties under development	—	8,331
Provision for permanent diminution in value of interest in a jointly-controlled entity	—	7,316
Foreign exchange losses/(gains), net	(329)	96
Gain on disposal of long term investments	(277)	—
Gross and net rental income	(2,120)	(3,213)
Interest income	(4,197)	(3,823)

At 31st December, 2000, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (1999: Nil).

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5. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	9,656	11,365
Interest on other loans	4	642
Interest on finance leases	103	107
	<u>9,763</u>	<u>12,114</u>

6. DIRECTORS' REMUNERATION

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Fees: Executive	7	10
Non-Executive	33	30
Other emoluments:		
Executive:		
Basic salaries, housing, other allowances and benefits in kind	1,623	2,325
Pension contributions	40	52
Bonuses paid and payable	125	188
Non-Executive:		
Other allowance	120	—
	<u>1,948</u>	<u>2,605</u>

In the prior year, a reduced interest rate loan was provided to a Director. The notional aggregate benefits in kind estimated to be associated with the loan, amounting to HK\$19,000 was included in the Directors' remuneration disclosed above, but was not charged to the profit and loss account.

The emoluments of the Directors fell within the following bands:

	2000 Number of Directors	1999 Number of Directors
Nil — HK\$1,000,000	6	6
HK\$1,000,001 — HK\$1,500,000	1	1
	<u>7</u>	<u>7</u>

There was no arrangement under which a Director had waived or agreed to waive any remuneration.

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7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (1999: two) Directors, details of whose remuneration are set out in note 6 above. The remaining three (1999: three) non-directors' remuneration fell within the band of Nil — HK\$1,000,000 and is analysed below:

	2000 HK\$'000	1999 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	1,759	1,719
Pension contributions	<u>77</u>	<u>79</u>
	<u>1,836</u>	<u>1,798</u>

During the year, no bonuses were paid or payable by the Group to the three highest paid, non-director individuals (1999: Nil).

8. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (1999: Nil).

Taxes on profits assessable elsewhere have been calculated based on existing legislation and practices at the rates of tax prevailing in the countries in which the Group operates. The tax charge for the year arose as follows:

	2000 HK\$'000	1999 HK\$'000
Group:		
Overseas	7,521	8,073
Overprovision in prior years	<u>(66)</u>	<u>(361)</u>
Tax charge for the year	<u>7,455</u>	<u>7,712</u>

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$42,548,000 (1999: HK\$35,424,000).

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10. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders for the year of HK\$18,046,000 (1999: HK\$47,401,000) and on the weighted average of 1,158,976,629 shares (1999: 907,166,985 shares) in issue during the year, adjusted to reflect the rights issue during the year.

The diluted loss per share for the years ended 31st December, 2000 and 1999 has not been shown as the warrants outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

11. FIXED ASSETS

Group

	Land and buildings HK\$'000	Office furniture, fixtures and equipment HK\$'000	Hotel plant and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At beginning of year	267,287	33,589	14,943	3,577	319,396
Additions	99	3,954	415	151	4,619
Arising from acquisition of subsidiaries	—	284	—	273	557
Transfer from investment properties (note 12)	14,591	—	—	—	14,591
Disposals	—	(1,723)	(1,742)	(151)	(3,616)
Exchange realignment	(8,037)	(1,041)	(2,074)	(101)	(11,253)
At 31st December, 2000	<u>273,940</u>	<u>35,063</u>	<u>11,542</u>	<u>3,749</u>	<u>324,294</u>
Accumulated depreciation:					
At beginning of year	19,181	22,465	10,488	2,797	54,931
Provided during the year	4,283	5,641	986	276	11,186
Arising from acquisition of subsidiaries	—	259	—	273	532
Disposals	—	(1,379)	(1,232)	(75)	(2,686)
Exchange realignment	(760)	(696)	(1,455)	(35)	(2,946)
At 31st December, 2000	<u>22,704</u>	<u>26,290</u>	<u>8,787</u>	<u>3,236</u>	<u>61,017</u>
Net book value:					
At 31st December, 2000	<u>251,236</u>	<u>8,773</u>	<u>2,755</u>	<u>513</u>	<u>263,277</u>
At 31st December, 1999	<u>248,106</u>	<u>11,124</u>	<u>4,455</u>	<u>780</u>	<u>264,465</u>

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The land and buildings, at cost, included above, are held on the following terms:

	2000	1999
	HK\$'000	HK\$'000
Freehold, overseas	50,016	58,053
Long term leases, Hong Kong	194,312	179,721
Long term leases, The People's Republic of China	29,612	29,513
	<u>273,940</u>	<u>267,287</u>

The net book value of assets held under finance leases at 31st December, 2000, included in the total amount of fixed assets, amounted to HK\$1,243,000 (1999: HK\$2,700,000).

Certain fixed assets with an aggregate net book value of HK\$231,501,000 (1999: HK\$228,358,000) have been pledged to secure banking facilities granted to the Group (note 26).

Company

	Office furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost:			
At beginning of year	5,568	2,067	7,635
Additions	625	—	625
Disposals	(4)	—	(4)
At 31st December, 2000	<u>6,189</u>	<u>2,067</u>	<u>8,256</u>
Accumulated depreciation:			
At beginning of year	1,241	2,067	3,308
Provided during the year	2,009	—	2,009
Disposals	(3)	—	(3)
At 31st December, 2000	<u>3,247</u>	<u>2,067</u>	<u>5,314</u>
Net book value:			
At 31st December, 2000	<u>2,942</u>	<u>—</u>	<u>2,942</u>
At 31st December, 1999	<u>4,327</u>	<u>—</u>	<u>4,327</u>

The net book value of assets held under finance leases at 31st December, 2000, included in the total amount of fixed assets, amounted to HK\$842,000 (1999: HK\$1,973,000).

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12. INVESTMENT PROPERTIES

	2000 HK\$'000	1999 <i>HK\$'000</i>
At beginning of year	29,182	29,182
Transfer to fixed assets (note 11)	(14,591)	—
At end of year	<u>14,591</u>	<u>29,182</u>

The investment properties are situated in Hong Kong and are held under long term leases. At 31st December, 2000, the investment properties were revalued on an open market basis by RHL Appraisal Limited, an independent property valuer, at HK\$14,591,000.

The above properties have been pledged to a bank to secure banking facilities granted to the Group (note 26).

A portion of one of the investment properties was leased to Morning Star Financial Services Limited (formerly Kerry Financial Services Limited) which was acquired by the Group during the year. Accordingly, that portion of investment properties was transferred from investment properties to fixed assets.

Further particulars of the Group's investment properties are included on page 72.

13. PROPERTIES UNDER DEVELOPMENT

	Group	
	2000 HK\$'000	1999 <i>HK\$'000</i>
At beginning of year	30,676	30,083
Additions	1,487	593
Provisions for diminutions in values	(29,104)	(29,104)
At end of year	<u>3,059</u>	<u>1,572</u>

Mansara Holding Company, Inc. ("Mansara"), a subsidiary of the Company, and Land Traders Properties and Development Company, Inc. ("Land Traders"), have entered into a joint venture agreement with Titan-Ikeda Construction and Development Corporation ("Titan") to develop and convert a property situated in the Philippines into residential condominiums with car parking slots. Mansara and Land Traders contributed the building (the "Building") and land (the "Land"), respectively, while Titan, as developer agreed, inter-alia, to pay for all development expenses and undertake the marketing and sale of the condominium units and parking slots and the collecting of all revenues derived therefrom.

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In the opinion of the Directors, sufficient provision has been made to take into consideration the net realisable value of the Building which was based on negotiations between Mansara, Land Traders and Titan in respect of a tentative swap of the interests of Mansara and Land Traders in the Building and the Land, respectively, for complete condominium units owned by Titan.

14. INTERESTS IN ASSOCIATES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	—	—	23,405	—
Share of net liabilities	(434)	(377)	—	—
Due from associates	1,159	1,124	293	—
Due to associates	(600)	(667)	—	—
	125	80	23,698	—
Provision for permanent diminution in value	—	—	(23,405)	—
	125	80	293	—

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ operations	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Way Bright Investment Limited	Corporate	Hong Kong	50	50	Property agency services
Zhaodaola Limited*	Corporate	Bermuda/ People's Republic of China	24	—	Operating of Internet portals

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

The above shows the significant associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all associates would, in the opinion of the Directors, result in particulars of excessive length.

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15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Share of net assets of jointly-controlled entities	31,902	30,167	—	—
Due from/(to) jointly-controlled entities	<u>(806)</u>	<u>(2,116)</u>	<u>1,468</u>	<u>—</u>
	31,096	28,051	1,468	—
Provisions for permanent diminutions in values	<u>(7,316)</u>	<u>(7,316)</u>	<u>—</u>	<u>—</u>
	<u>23,780</u>	<u>20,735</u>	<u>1,468</u>	<u>—</u>

The balances with the jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of registration/ operations	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Suzhou Huaxing Real Estate Development Company, Limited ("Suzhou Huaxing")*	Corporate	People's Republic of China	50	50	Property development
Beijing Morning Star - New Ark International Travel Service Co., Ltd.*	Corporate	People's Republic of China	49	—	Provision of travel services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

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Extracts of the financial statements of Suzhou Huaxing for the year ended 31st December, 2000, over which the Group has joint control are as follows:

	2000	1999
	HK\$'000	HK\$'000
Non-current assets	1,069	900
Current assets	65,196	60,518
Current liabilities	6,315	1,085
Non-current liabilities	—	—
Income	317	871
Net loss for the year	383	353

16. INVESTMENTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Long term investments		
Listed equity investments in Hong Kong, at cost	<u>1,255</u>	—
Unlisted equity investments, at cost	7,671	10,322
Provision for impairment in value	<u>—</u>	(10,312)
	<u>7,671</u>	10
	8,926	10
Market value of listed investments	<u>1,255</u>	—
Short term investments		
Listed equity investments in Hong Kong, at market value	<u>277</u>	—

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17. OTHER ASSETS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Deposit with The Stock Exchange of Hong Kong Limited	300	—
Admission fee paid to Hong Kong Securities Clearing Company Limited	150	—
Contribution to Hong Kong Securities Clearing Company Limited Guarantee Fund	150	—
	<hr/>	<hr/>
	600	—
	<hr/> <hr/>	<hr/> <hr/>

18. PLEDGED BANK BALANCES AND TIME DEPOSITS

The non-current pledged bank balances and time deposits are pledged to certain banks to secure mortgage loan facilities granted to purchasers of properties of Morning Star Villa and Morning Star Plaza. The prior year's current pledged bank balances and time deposits were pledged to a bank for banking facilities granted to a subsidiary.

19. BALANCES WITH RELATED COMPANIES

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment except for a balance due from Morning Star Villa Management Limited which bears interest at 2 percent above the Hong Kong dollar prime rate per annum.

20. PROPERTIES HELD FOR SALE

The carrying amount of properties held for sale included in the consolidated balance sheet that was carried at net realisable value was HK\$2,000,000 (1999: HK\$2,000,000).

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21. TRADE RECEIVABLES

The Group grants credit periods of up to 30 days to its trade customers. Details of the aging analysis of trade receivables are as follows:

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Current	63,019	52,087
1-3 months	2,361	2,159
Over 3 months	332	3,068
	<u>65,712</u>	<u>57,314</u>

22. OTHER RECEIVABLES

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Loans to Land Traders Properties and Development Company, Inc. ("Land Traders") — see note below	7,262	8,707	—	—
Deposits	31,659	21,711	20	226
Sundry debtors and prepayments	13,651	11,132	353	2,246
	<u>52,572</u>	<u>41,550</u>	<u>373</u>	<u>2,472</u>

The loans were used by Land Traders to acquire a piece of land on which the Enrico Hotel, a hotel owned by Mansara Holding Company, Inc. ("Mansara"), a 61%-owned subsidiary of the Group, is built, and an adjoining piece of land. They are secured by promissory notes and mortgages over the two pieces of land in favour of Mansara.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash and bank balances	63,198	60,639	28	27
Time deposits	76,934	13,087	—	—
	<u>140,132</u>	<u>73,726</u>	<u>28</u>	<u>27</u>

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

24. FINANCE LEASE PAYABLES

There were obligations under non-cancellable finance leases at the balance sheet date as set out below:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Amounts payable:				
Within one year	892	1,175	584	966
In the second to fifth years, inclusive	434	1,143	293	829
Total minimum finance lease payments	1,326	2,318	877	1,795
Future finance charges	(107)	(203)	(64)	(157)
Total finance lease payables	1,219	2,115	813	1,638
Portion classified as current liabilities	(814)	(1,040)	(529)	(867)
Long term portion of finance lease payables	405	1,075	284	771

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK\$28,336,000 (1999: HK\$29,686,000). Details of the aging analysis of trade payables are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Current	24,412	24,372
1-3 months	2,454	3,726
Over 3 months	1,470	1,588
	28,336	29,686

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

26. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Bank loans and overdrafts repayable within 1 year	<u>129,220</u>	<u>143,587</u>	<u>129,220</u>	<u>126,798</u>

The bank loans are secured by certain fixed assets and the investment properties of the Group (notes 11 and 12).

27. NON-INTEREST-BEARING OTHER BORROWINGS

Non-interest-bearing other borrowings represent short term loans of HK\$33,155,000 (1999: HK\$16,935,000) granted by the minority shareholders of subsidiaries which are unsecured, interest-free, and have no fixed terms of repayment.

28. DEFERRED TAX

The principal components of deferred tax assets/(liabilities) not recognised/(provided for) are as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Accelerated depreciation allowances	(97)	(488)
Tax losses	<u>24,883</u>	<u>22,858</u>
Deferred tax asset	<u>24,786</u>	<u>22,370</u>

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

29. SHARE CAPITAL

	Company	
	2000	1999
	HK\$'000	HK\$'000
Shares		
Authorised:		
5,000,000,000 ordinary shares of HK\$0.20 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
1,379,741,460 (1999: 919,827,640) ordinary shares of HK\$0.20 each	<u>275,948</u>	<u>183,966</u>

On 20th June, 2000, 459,913,820 new shares (the "Rights Shares") of HK\$0.20 each were issued by way of a rights issue on the basis of one Rights Share for every two existing shares held at an issue price of HK\$0.20 per share for a total cash consideration, before share issue expenses, of HK\$91,982,764. The proceeds of the issue of Rights Shares are to provide additional capital for the Group and to finance the Group's acquisition of an associate and a jointly-controlled entity.

A summary of the movements of the Company's ordinary share capital is as following:

	Number of shares	HK\$'000
At 1st January, 1999	919,767,640	183,953
Issued upon conversion of warrants	<u>60,000</u>	<u>13</u>
At 31st December, 1999 and 1st January, 2000	919,827,640	183,966
Rights issue	<u>459,913,820</u>	<u>91,982</u>
At 31st December, 2000	<u><u>1,379,741,460</u></u>	<u><u>275,948</u></u>

Warrants

On 20th June, 2000, the Company completed an issue of bonus warrants on the basis of three warrants for every five Rights Shares. As at the balance sheet date, the Company had 275,948,292 outstanding warrants entitling the registered holders to subscribe in cash at any time on or before 19th June, 2005 for fully paid ordinary shares of HK\$0.20 each of the Company at an exercise price of HK\$0.20 (subject to adjustments) per share. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 275,948,292 additional ordinary shares and proceeds, before share issue expenses, of HK\$55,189,658. No warrants were exercised during the year.

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

30. RESERVES

Group

	Share premium account HK\$'000	Exchange realignment reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 1999	134,000	(30,767)	—	(6,350)	96,883
Exchange realignment arising from translation of foreign subsidiaries	—	4,776	—	—	4,776
Arising from exercise of warrants	5	—	—	—	5
Loss for the year	—	—	—	(47,401)	(47,401)
At 31st December, 1999 and beginning of year	134,005	(25,991)	—	(53,751)	54,263
Exchange realignment arising from translation of foreign subsidiaries	—	(7,428)	—	—	(7,428)
Share issue expenses	(1,630)	—	—	—	(1,630)
Goodwill arising on acquisition of associates	—	—	(17,238)	—	(17,238)
Capital reserve arising on acquisition of subsidiaries	—	—	164	—	164
Loss for the year	—	—	—	(18,046)	(18,046)
At 31st December, 2000	<u>132,375</u>	<u>(33,419)</u>	<u>(17,074)</u>	<u>(71,797)</u>	<u>10,085</u>
Reserves retained by:					
Company and subsidiaries	132,375	(33,419)	(17,074)	(64,052)	17,830
Associates	—	—	—	(7,385)	(7,385)
Jointly-controlled entities	—	—	—	(360)	(360)
At 31st December, 2000	<u>132,375</u>	<u>(33,419)</u>	<u>(17,074)</u>	<u>(71,797)</u>	<u>10,085</u>
Company and subsidiaries	134,005	(25,991)	—	(53,045)	54,969
Associates	—	—	—	(921)	(921)
Jointly-controlled entity	—	—	—	215	215
At 31st December, 1999	<u>134,005</u>	<u>(25,991)</u>	<u>—</u>	<u>(53,751)</u>	<u>54,263</u>

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

Company

	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 1999	134,000	(44,318)	89,682
Arising from exercise of warrants	5	—	5
Loss for the year	—	(35,424)	(35,424)
	<hr/>	<hr/>	<hr/>
At 31st December, 1999 and at beginning of year	134,005	(79,742)	54,263
Share issue expenses	(1,630)	—	(1,630)
Loss for the year	—	(42,548)	(42,548)
	<hr/>	<hr/>	<hr/>
At 31st December, 2000	<u>132,375</u>	<u>(122,290)</u>	<u>10,085</u>

31. INTERESTS IN SUBSIDIARIES

	Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Unlisted shares, at cost	24,555	34
Due from subsidiaries	526,090	414,298
Due to subsidiaries	(93,184)	(18,046)
	<hr/>	<hr/>
	457,461	396,286
Provisions for permanent diminutions in values	(44,902)	(33,612)
	<hr/>	<hr/>
	<u>412,559</u>	<u>362,674</u>

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

Particulars of the principal subsidiaries at the balance sheet date were as follows:

Name	Place of incorporation/ operations	Issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Barilla Pty. Limited	Australia	A\$2	—	69.5	Ordinary	Property holding
Bright Profit Investments Limited	British Virgin Islands/ People's Republic of China	US\$50,000	—	55	Ordinary	Property development
Consing Investment Limited	Hong Kong	HK\$2	—	100	Ordinary	Investment holding
Genuine Gains Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Ordinary	Property investment
Jubilation Properties Limited	British Virgin Islands/ People's Republic of China	US\$50,000	—	55	Ordinary	Property development
Kingpin Assets Limited	British Virgin Islands	US\$2	—	100	Ordinary	Investment holding
Mansara Holding Company, Inc.	Philippines	Peso30,000,000	—	61	Ordinary	Hotel investment
Mansara International Limited	British Virgin Islands/ Philippines	US\$100	—	61	Ordinary	Investment holding
Morning Star Finance Limited	Cayman Islands	HK\$200	100	—	Ordinary	Financial services
Morning Star Financial Services Limited*	Hong Kong	HK\$42,924,000	54.8	—	Ordinary	Investment holding

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

Name	Place of incorporation/ operations	Issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Morning Star Foreign Exchange Limited	Hong Kong	HK\$300,000	—	100	Ordinary	Money lending
Morning Star Holdings (Australia) Limited	Australia	A\$13,402,501	—	69.5	Ordinary	Investment holding
Morning Star Holdings (Thailand) Limited	Thailand	Baht25,000	100	—	Ordinary	Investment holding
Morning Star Hotel International Limited	Cayman Islands	HK\$200	100	—	Ordinary	Investment holding
Morning Star Hotel Investments Limited	Cayman Islands	HK\$200	100	—	Ordinary	Investment holding
Morning Star Investment Management Limited*	Hong Kong	HK\$5,000,000	—	54.8	Ordinary	Provision of investment advisory services
Morning Star Properties Limited	British Virgin Islands	US\$2	100	—	Ordinary	Investment holding
Morning Star Property Consultants Limited	Hong Kong	HK\$2	—	100	Ordinary	Property consultancy services
Morning Star Travel International Limited	Cayman Islands	HK\$200	100	—	Ordinary	Investment holding

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

Name	Place of incorporation/ operations	Issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Morning Star Securities Limited*	Hong Kong	HK\$150,000,000	—	54.8	Ordinary	Securities broking
Morning Star Travel Service Limited	Hong Kong	HK\$90,000,000 HK\$10,000,000	—	100	Ordinary Non-voting deferred	Travel services
Morning Star Travel Service Ltd.*	British Columbia, Canada	C\$81,000	—	100	Ordinary	Travel services
Morning Star Travel Service (Macau) Limited*	Macau	MOP1,000,000	—	100	Ordinary	Travel services
Morning Star Traveller Plus Limited	Hong Kong	HK\$2	—	100	Ordinary	Travel-related services
Remarkable Investments Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Ordinary	Property holding
Star Building (Holdings) Limited	Thailand	Baht1,000,000	—	50.8	Ordinary	Property holding

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

Name	Place of incorporation/ operations	Issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Star Travel Service Limited	Hong Kong	HK\$1,050,000	—	100	Ordinary	Travel services
Stowford Pty. Ltd.	Australia	A\$20	—	69.5	Ordinary	Hoteliers and caterers
Vista International Hotels Limited	Hong Kong	HK\$10 HK\$300,000	—	100	Ordinary Non-voting deferred	Hotel management
Vista Hotel Management Sdn Bhd	Malaysia	MYR2 MYR500,000	—	100	Ordinary Non-cumulative irredeemable 10% preference	Hotel management
Vista International Hotels Pty. Limited	Australia	A\$2	—	100	Ordinary	Hotel management

** Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms*

The above table lists the subsidiaries of the Company as at 31st December, 2000 which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities:

	2000	1999
	HK\$'000	HK\$'000
Profit/(loss) from operating activities	22,435	(14,189)
Interest income	(4,197)	(3,823)
Depreciation	11,186	14,197
Provision for diminution in value of properties under development	—	8,331
Provision for permanent diminution in value of interest in a jointly-controlled entity	—	7,316
Gain on disposal of long term investments	(277)	—
Loss on disposal of fixed assets	811	701
Increase in amounts due from related companies	(6,755)	—
Decrease/(increase) in properties held for sale	2,325	(29,402)
Decrease/(increase) in properties under development held for sale	(30,692)	35,659
Decrease/(increase) in inventories	205	(1,159)
Decrease/(increase) in trade receivables	(8,567)	10,326
Increase in other receivables	(6,360)	(5,182)
Increase in amounts due to related companies	1,106	—
Increase in trade payables, other payables and accruals	25,028	24,275
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>6,248</u>	<u>47,050</u>

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

(b) Acquisition of subsidiaries

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	25	—
Long term investments	8,926	—
Other assets	600	—
Short term investments	277	—
Trade receivables	333	—
Other receivables	4,888	—
Cash and bank balances	54,975	—
Trade payables, other payables and accruals	(3,102)	—
Loans from minority shareholders	(16,220)	—
Loans from a group company	(7,847)	—
Minority interests	(18,242)	—
	<u>24,613</u>	—
Capital reserve on acquisition	(164)	—
	<u>24,449</u>	—
Satisfied by:		
Reclassification of interests in associates	17,295	—
Reclassification of loans to associates	7,154	—
	<u>24,449</u>	—
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries:		
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	<u>54,975</u>	—

The subsidiaries acquired during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated loss after tax and before minority interests for the year.

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

(c) Analysis of changes in financing:

	Share capital (including premium) HK\$'000	Minority interests HK\$'000	Loans and finance lease payables HK\$'000
Balance as at 1st January, 1999	317,953	95,648	153,368
Share of profit for the year	—	13,208	—
Dividends paid to minority interests by subsidiaries	—	(48,611)	—
Inception of finance lease contracts	—	—	2,559
Net cash inflow/(outflow) from financing	18	17,100	(16,196)
Effect of foreign exchange adjustments	—	1,696	1,518
	<hr/>	<hr/>	<hr/>
Balance as at 31st December, 1999 and 1st January, 2000	317,971	79,041	141,249
Share of profit for the year	—	16,393	—
Acquisition of subsidiaries	—	18,242	16,220
Inception of finance lease contracts	—	—	149
Net cash inflow/(outflow) from financing	90,352	(1,801)	(3,178)
Effect of foreign exchange adjustments	—	(5,326)	(66)
	<hr/>	<hr/>	<hr/>
Balance as at 31st December, 2000	<u>408,323</u>	<u>106,549</u>	<u>154,374</u>

33. COMMITMENTS

(a) Capital commitments

	Group	
	2000 HK\$'000	1999 HK\$'000
Contracted for:		
Land and construction costs	110,576	132,493
Others	15,443	2,301
Authorised, but not contracted for:		
Land and construction costs	<u>65,544</u>	<u>187,138</u>
	<u>191,563</u>	<u>321,932</u>

Included in the above is an amount of HK\$176,120,000 (1999: HK\$319,631,000) relating to the development of the Group's property projects in Zhongshan, the People's Republic of China, into a residential and commercial complex.

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

In addition to the above, the Group's share of capital commitments of a jointly-controlled entity are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Contracted, but not provided for	<u>1,167</u>	<u>2,356</u>
(b) Operating lease commitments		
	Group	
	2000	1999
	HK\$'000	HK\$'000
Annual commitments payable in the following year under non-cancellable operating leases on land and buildings expiring:		
Within one year	1,284	4,555
In the second to fifth years, inclusive	<u>6,366</u>	<u>2,420</u>
	<u>7,650</u>	<u>6,975</u>

Save as disclosed above, the Company and the Group had no other significant commitments at the balance sheet date.

34. CONTINGENT LIABILITIES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank guarantees	355,597	301,300	163,869	210,885
Guarantee of banking facilities granted to a subsidiary	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,668</u>
	<u>355,597</u>	<u>301,300</u>	<u>163,869</u>	<u>227,553</u>

Included in bank guarantees is an amount of HK\$347,032,000 (1999: HK\$294,988,000) (Company — 2000: HK\$155,304,000, 1999: HK\$210,885,000) in respect of a buy-back guarantee in favour of banks given to the purchasers of the Morning Star Villa and Morning Star Plaza properties on certain mortgage loans outstanding at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

35. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, on 12th March 2001, the Company entered into two conditional sale and purchase agreements with Mr. Jeremy Lechemere KING, Knight Holdings (HK) Limited and Knight Partners Limited, who are minority shareholders of Morning Star Financial Services Limited ("MSFS") (formerly Kerry Financial Services Limited), a subsidiary of the Group, for the acquisition of a total of 3,000,000 ordinary shares of MSFS for a cash consideration of HK\$3,180,000. Following these transactions, the Company's equity interest in MSFS will increase to approximately 61.8%.

36. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties during the year:

	Notes	2000 HK\$'000	1999 HK\$'000
Rental income from related companies:			
Morning Star Securities Limited (formerly Kerry Securities Limited) ("MSSL")	(i)	856	1,414
Morning Star Investment Management Limited (formerly Kerry Investment Management Limited) ("MSIML")	(i)	48	48
MUI Enterprises Limited ("MUIEL")	(i)	856	1,414
Architectural consultancy fees paid to:			
Shen & Partners Limited ("Shen & P")	(ii)	1,140	1,630
SRT Design (China) Limited ("SRT (China)")	(ii)	100	194
Interest income from Morning Star Villa Management Limited ("MVM")	(iii)	<u>372</u>	<u>—</u>

On 5th October, 2000, the Company entered into an agreement with two shareholders of MSFS, who together held a 45.8% equity interest in MSFS, to acquire their entire interest in MSFS (the "Acquisition") at a consideration of HK\$17,368,100. One of these shareholders also agreed to assign a shareholder's loan of HK\$14,998,684 ("Shareholder's Loan") to the Company on a dollar-for-dollar basis. In addition, on 25th October, 2000, the Company entered into a capitalisation agreement with Firstway International Investment Limited ("Firstway") and MSFS for capitalisation of the Shareholder's Loan into ordinary shares of MSFS (the "Capitalisation"). Firstway, a substantial shareholder of the Company, held a 45.8% equity interest in MSFS at the dates of signing of the aforesaid agreements in relation to the Acquisition and Capitalisation. Accordingly, the Acquisition and the Capitalisation constituted connected party transactions of the Company, particulars of which were set out in the circular of the Company dated 3rd November, 2000.

NOTES TO FINANCIAL STATEMENTS

31st December, 2000

Pursuant to the capitalisation agreement, on 30th December, 2000, the Company capitalised a portion of the Shareholder's Loan amounting to HK\$7,154,000 into 7,154,000 new ordinary shares of HK\$1 each of MSFS. Following such loan capitalisation, MSFS became a subsidiary of the Company. Subsequent to the balance sheet date, on 12th March, 2001, the Company entered into two conditional sale and purchase agreements to acquire a further 7% equity interest in MSFS, the particulars of which is set out in note 35, the significant connected transactions section in the Report of the Directors and in a press announcement released on 13th March, 2001.

Notes:

(i) *MSSL and MSIML are subsidiaries of MSFS and associates of Firstway, a substantial shareholder of the Company. Accordingly, prior to the completion of the acquisition of shares in MSFS by the Company on 30th December, 2000, MSSL, MSIML and MSFS are considered related parties of the Company. MUIEL is a subsidiary of Malayan United Industries Berhad ("MUI"). Dr. KHOO Kay Peng, the Non-Executive Chairman of the Company, is also the chairman of Firstway and MUI. Pursuant to tenancy agreements entered into between the Group and MSSL and MUIEL, respectively, in 1997, the Group leased office areas to these companies for a period of three years at a total annual rental of HK\$2,828,000, commencing from 1st April, 1997. During the year, the tenancy agreements between the Group and MSSL and MUIEL, respectively, were renewed for a further two years commencing from 1st April, 2000 at a total annual rental of HK\$1,339,000. Additionally, pursuant to a tenancy agreement entered into between the Group and MSIML, the Group leased a car parking space to MSIML at a monthly rental of HK\$4,000. The rentals charged to MSSL, MSIML and MUIEL were determined by reference to open market rentals.*

Following the acquisition of additional shares in MSFS by the Company on 30th December, 2000, MSSL and MSIML ceased to be related parties of the Group.

(ii) *Mr. Edward SHEN, an Independent Non-Executive Director of the Company, is a director of, and holds a 60% interest in the issued share capital of Shen & P, which in turn holds a 50% interest in the issued share capital of SRT (China). The fees were charged by reference to the prevailing market rates.*

(iii) *MVM is engaged in the property management of Morning Star Villa. Certain Directors of the Company and its subsidiaries are also the directors of MVM. Interest at 2 percent above the Hong Kong dollar prime rate per annum is charged on balances with MVM.*

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23rd March, 2001.