

# NOTES TO THE ACCOUNTS

## 1 PRINCIPAL ACTIVITIES

The Group is principally engaged in property investment and securities investment.

## 2 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with generally accepted accounting principles in Hong Kong.

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiary companies made up to 31st December. Results attributable to subsidiary companies acquired or disposed of during the year are included from the date of acquisition or to the date of disposal as applicable.

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

Gains or losses on the disposal of subsidiary companies are determined as the difference between the net disposal proceeds and the Group's share of net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

### (b) Goodwill on consolidation

Goodwill arising on acquisition of subsidiary companies represents the excess of purchase consideration over the fair values ascribed to the net tangible assets acquired and is taken directly to reserves in the year of acquisition.

### (c) Subsidiary companies

A company is a subsidiary company if more than 50% of the issued equity capital is held for the long-term or if the composition of the board of directors is controlled by the Group. Investments in subsidiary companies are carried at or below cost. Provision is made when, in the opinion of the Directors, there is a permanent diminution in value.

# NOTES TO THE ACCOUNTS

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (d) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation.

No depreciation is provided in respect of investment properties held on leases of more than twenty years.

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and are held for their investment potential, any rental income being negotiated at arm's length. Investment properties held on leases of more than twenty years are carried at open market value based on annual valuations by independent valuers at the balance sheet date. Deficits in valuation are charged to the profit and loss account; increases are first credited to the profit and loss account to the extent of valuation deficits previously charged on a portfolio basis and thereafter credited to the investment property valuation reserve. Upon the disposal of an investment property, any relevant revaluation surplus is transferred to the profit and loss account.

Long-term leasehold land is amortised, using the straight-line method, over the remaining periods of the leases. Depreciation of other fixed assets is calculated to write off the cost of the assets over their estimated useful lives, using the straight-line method, at the following annual rates:

Buildings	2% to 4%
Leasehold improvements	15% to 33-1/3%
Furniture and equipment	9% to 20%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group. The carrying amounts of fixed assets are reviewed regularly to assess whether recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

Profit and loss on disposal of fixed assets, other than investment properties, are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are dealt with in the profit and loss account.

### (e) Trading securities

Trading securities are carried at fair value. The net unrealised gains or losses arising from the changes in fair value are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

## NOTES TO THE ACCOUNTS

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

**(f) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(g) Operating leases**

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

**(h) Revenues recognition**

Rental and interest income are recognised on a time proportion basis. Dividend income is recognised when the right to receive payment is certain. Revenue from sale of goods is recognised when goods are delivered and legal title has transferred to customers.

**(i) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions within three months from the date of placement, less advances from banks and financial institutions repayable within three months from the date of advance.

**(j) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at that date. Exchange differences arising are dealt with in the profit and loss account.

The accounts of subsidiary companies expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

## NOTES TO THE ACCOUNTS

### 3 TURNOVER

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction materials		
Sales	–	55,132
Construction contracts	–	27,630
	<u>–</u>	<u>82,762</u>
Rental and related income	12,879	14,523
Sales of trading securities	5,360	–
Dividend income	16	–
	<u>18,255</u>	<u>97,285</u>

Turnover represents gross sales of marble and granite, less discounts and returns, dividend income, proceeds on sales of trading securities, service and rental income.

An analysis of the turnover and operating results by principal activities and geographical areas of operations are as follows:

	<b>Turnover</b>		<b>Operating profit/(loss)</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction materials trading				
Hong Kong	–	77,881		
Mainland China ( <i>note a</i> )	–	4,881		
	<u>–</u>	<u>82,762</u>	–	(24,432)
	.....	.....	.....	.....
Rental and related income				
Mainland China	12,057	13,830	9,697	(9,447)
Hong Kong	822	693	812	419
	<u>12,879</u>	<u>14,523</u>	<u>10,509</u>	<u>(9,028)</u>
	.....	.....	.....	.....
Securities trading				
Hong Kong ( <i>note b</i> )	5,376	–	(6,036)	–
	.....	.....	.....	.....
Corporate				
Hong Kong ( <i>note c</i> )	–	–	(8,736)	(42,538)
	<u>–</u>	<u>–</u>	<u>(8,736)</u>	<u>(42,538)</u>
	.....	.....	.....	.....
	<u>18,255</u>	<u>97,285</u>	<u>(4,263)</u>	<u>(75,998)</u>

## NOTES TO THE ACCOUNTS

### 3 TURNOVER (Continued)

- (a) The Group's turnover of construction materials in Mainland China and Hong Kong included those sales which the Directors believed that the ultimate market was Mainland China. Accordingly, costs of these sales were not separately allocated. The Directors therefore considered that it was not meaningful to show the operating loss derived from such sales.
- (b) Operating loss included unrealised loss of trading securities of HK\$6,333,000.
- (c) 1999 operating loss included loss on disposal of subsidiary companies of HK\$37,774,000.

### 4 OTHER REVENUES

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest	1,294	132
Bad debts recovered	221	–
Sundries	757	346
	2,272	478
	2,272	478

### 5 OPERATING LOSS

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Operating loss is stated after crediting:		
Gross rental income	12,879	14,523
Less related outgoings	(2,332)	(2,895)
Realised profit on sales of trading securities	233	–
	12,780	11,628
	12,780	11,628
and after charging:		
Depreciation	1,181	3,895
Staff costs (including directors' remuneration)	4,942	7,574
Operating lease rental expense for land and buildings	316	6,153
Unrealised loss of trading securities	6,333	–
Auditors' remuneration	179	535
	13,931	18,157
	13,931	18,157

## NOTES TO THE ACCOUNTS

### 5 OPERATING LOSS (Continued)

- (b) The Group had disposed of the construction materials trading business in December 1999. The contribution to turnover and operating loss in respect of the discontinued operation, accounted for up to the date of discontinuance, were as follows:

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	—	82,762
Operating loss	—	(24,432)

- (c) Pursuant to a letting and management agreement dated 11th March 1997, INNOMAXX (China) Properties Limited (formerly GITIC Properties Limited) (“ICPL”), a subsidiary company, appointed Guangdong International Trust & Investment Corporation Hong Kong (Holdings) Limited (“GITIC Hong Kong”), a former intermediate holding company, to manage the property situated on the second floor, GITIC Plaza, Guangzhou (the “Property”) in consideration of a management fee representing 15% of the total gross rental and related income received by ICPL in respect of the Property. Under the agreement, GITIC Hong Kong was also responsible for paying any related income tax in Mainland China out of the management fee payable by the Group (note 8). GITIC Hong Kong in turn appointed Guangdong International Building Enterprises Company Limited (“GIBE”), a former fellow subsidiary company, as its sub-agent to manage the Property under similar terms. GITIC Hong Kong commenced liquidation proceedings in October 1998 and the agreement with GITIC Hong Kong was terminated with effect from 11th June 1999. The Group then commenced negotiation with GIBE for a new property management agreement and has proposed for terms similar to those of the previous agreement with GITIC Hong Kong. A provision has therefore been made in these accounts under outgoings of property rental income amounting to HK\$1,716,000 (1999: HK\$1,968,000) for the year on this basis. GIBE has however made a counter offer to accept the appointment as property manager for the Property at a significantly higher remuneration as compared with the terms proposed by the Group. No agreement has yet been reached in relation to the terms of the management. In March 2001, the Group proposed to collect rental directly and be responsible for all related expenses in Mainland China. The Directors are unable to predict with certainty the final outcome of the negotiations with GIBE and therefore the amount of management fee ultimately payable to GIBE. The Directors however consider that this will not have a material adverse effect on the Group’s financial position as a whole.

## NOTES TO THE ACCOUNTS

### 6 FINANCIAL EXPENSES

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and short-term loans	2	4,689
	<u>2</u>	<u>4,689</u>

### 7 EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES

#### (a) Directors' emoluments

Details of the emoluments paid to the Directors of the Company are as follows:

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	819	400
Salaries and other emoluments	3,466	899
Discretionary bonuses	–	–
Retirement benefits	–	–
	<u>4,285</u>	<u>1,299</u>

The emoluments of the Directors of the Company fall within the following bands:

<b>Emoluments bands</b>	<b>Number of Directors</b>	
	<b>2000</b>	<b>1999</b>
Nil to HK\$1,000,000	12	11
HK\$1,500,001 to HK\$2,000,000	1	–
	<u>13</u>	<u>11</u>

None of the Directors has waived the right to receive their emoluments. Fees paid to independent non-executive Directors during the year amounted to HK\$100,000 (1999: HK\$400,000).

## NOTES TO THE ACCOUNTS

### 7 EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES

#### (b) Senior executives' emoluments

Details of emoluments paid by the Group to the five individuals, including five (1999: one) Directors, whose emoluments were the highest in the Group are as follows:

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other emoluments	3,943	2,456
Discretionary bonuses	–	–
Retirement benefits	–	–
	<u>3,943</u>	<u>2,456</u>

The emoluments of the five individuals of the Group fall within the following bands:

<b>Emoluments bands</b>	<b>Number of individuals</b>	
	<b>2000</b>	<b>1999</b>
Nil to HK\$1,000,000	4	5
HK\$1,500,001 to HK\$2,000,000	1	–
	<u>5</u>	<u>5</u>

### 8 TAXATION CREDIT

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax		
Tax refunded	–	702
	<u>–</u>	<u>702</u>

No provision for Hong Kong profits tax has been made as the Group does not have any assessable profits for the year (1999: nil).

Under a letting and management agreement dated 11th March 1997, GITIC Hong Kong, as the property manager, was responsible to pay, out of management fee payable by the Group, any income tax in Mainland China in relation to the Group's investment property in Mainland China. As more fully explained in note 5 (c) above, the management agreement with GITIC Hong Kong was terminated with effect from 11th June 1999. The Group was then in negotiation with GIBE a new management agreement with terms similar to those with GITIC Hong Kong. The Group is not responsible for paying income tax in Mainland China for so long as the agreement remained in force.



## NOTES TO THE ACCOUNTS

### 9 LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders for the year of HK\$4,265,000 (1999: HK\$79,985,000) and on 484,728,853 shares (1999: 484,728,853 shares) in issue during the year.

Diluted loss per share is not presented as there are no dilutive potential shares for the options granted under the Company's share option scheme.

### 10 FIXED ASSETS

#### Group

	Investment Properties <i>HK\$'000</i>	Land and buildings Hong Kong <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At 31st December 1999	157,990	31,136	3,301	97	192,524
Additions	–	–	–	3,320	3,320
Surplus on revaluation	10	–	–	–	10
At 31st December 2000	158,000	31,136	3,301	3,417	195,854
Accumulated depreciation					
At 31st December 1999	–	659	2,599	11	3,269
Charge for the year	–	329	496	356	1,181
At 31st December 2000	–	988	3,095	367	4,450
Net book value					
At 31st December 2000	158,000	30,148	206	3,050	191,404
At 31st December 1999	157,990	30,477	702	86	189,255

## NOTES TO THE ACCOUNTS

### 10 FIXED ASSETS (Continued)

The net book value of the properties is analysed as follows:

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Hong Kong		
Long-term leases	43,148	43,467
Mainland China		
Medium-term leases	145,000	145,000
	<u>188,148</u>	<u>188,467</u>

The investment properties are stated at professional valuation made by RHL Appraisal Limited, an independent valuer, on 31st December 2000 on an open market basis. All other assets are carried at cost less accumulated depreciation.

### 11 SUBSIDIARY COMPANIES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Unlisted shares, at cost	180,358	180,358
Provision	(358)	(6,728)
	<u>180,000</u>	<u>173,630</u>
Amounts receivable less provision	50,561	47,176
Amounts payable	–	(2,154)
	<u>230,561</u>	<u>218,652</u>

The amounts receivable and payable are unsecured, interest free and have no specific repayment terms.