

1. CORPORATE INFORMATION

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

- property development
- property investment
- provision of serviced apartment and property management services
- project management
- pub operations

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 periodic remeasurement of investment properties and equity investments, as explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 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 have been 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.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest and 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.

Goodwill or capital reserve

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or to 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.

Fixed assets and depreciation

Fixed assets, other than investment properties, 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 its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

Leasehold land	Over the terms of the leases
Buildings	2%
Leasehold improvements	Shorter of lease terms and 20%-30%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

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 the 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 from the investment property revaluation reserve to the profit and loss account.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, capitalised interest during the period of development and other direct costs attributable to such properties. Net realisable value is calculated as the estimated selling price less all costs to completion, if applicable, and costs of marketing and selling.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Operating leases

Leases where substantially all the rewards and risks of ownership of the 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 as incurred over the lease terms.

Deferred taxation

Provision is made for deferred taxation, 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 and associates are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 and bank balances and time deposits represent assets which are not restricted as to use.

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) sale of properties and interests in investment properties, on completion of a binding sales contract, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties and interests in investment properties sold;
- (b) rental income from property letting, in the period in which the properties are let and on a straight-line basis over the lease terms;
- (c) income from the provision of serviced apartments and property management services, and from project management, in the period in which such services are rendered;
- (d) receipts from pub operations, upon the delivery of food and beverages to customers;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (f) dividends, when the shareholders' right to receive payment is established; and
- (g) sale of listed securities, on the trade date.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirements benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its Hong Kong employees. The Scheme became effective from 1 December 2000. 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 Scheme. The assets of the Scheme are held separately from those of the Group in an independently-administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

As stipulated by the regulations of the PRC government, each of the Group's subsidiaries in the PRC participates in the Central Pension Scheme operated by the PRC government for all of their staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme. Contributions under the scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2000

3. TURNOVER

Turnover represents the total amounts received and receivable on the sales of properties and interests in investment properties, the provision of serviced apartment and property management services, and project management services, property agency services, receipts from pub operations and rental income, net of PRC business and real estate taxes, from property letting, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in the Group's turnover:

	2000 HK\$'000	1999 HK\$'000
Sales of properties	—	8,081
Sales of interests in investment properties	3,500	—
Rental income from property letting	99,123	101,535
Serviced apartment and property management	4,674	4,363
Project management	—	10,400
Pub operations	6,128	6,928
	113,425	131,307

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2000

4. PROFIT FROM OPERATING ACTIVITIES

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

	2000 HK\$'000	1999 <i>HK\$'000</i>
Depreciation	4,426	4,316
Auditors' remuneration	637	637
Provisions for bad and doubtful debts	3,046	364
Loss on disposal of interests in investment properties	1,225	—
Provision for diminution in values of short term listed investments	296	—
Staff costs (including those of directors):		
Wages and salaries	9,121	8,608
Pension contributions*	55	108
	<u>9,176</u>	<u>8,716</u>
Gain on disposal of fixed assets	(39)	(1,029)
Gross rental income	(99,123)	(101,535)
Less: Outgoings	3,677	3,837
	<u>(95,446)</u>	<u>(97,698)</u>
Net rental income	(95,446)	(97,698)
Interest income	(5,350)	(4,667)
Dividend income from listed investments	(135)	—
Exchange losses/(gains), net	816	(1,486)
Gain on disposal of investment properties	—	(6,369)
	<u> </u>	<u> </u>

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

5. FINANCE COSTS

	Group	
	2000 HK\$'000	1999 <i>HK\$'000</i>
Interest expense on bank loans wholly repayable within five years	28,254	15,205
Interest expense on bank loans wholly repayable after five years	37,894	43,284
	<u>66,148</u>	<u>58,489</u>

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2000

6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Non-executive directors:		
Fees	180	120
Executive directors:		
Salaries	2,170	2,030
	2,350	2,150

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	1	—
	8	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included two (1999: three) directors, details of whose remuneration are set out in note 6 above.

Details of the remuneration of the remaining three (1999: two) highest paid employees are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries	1,426	940

The remuneration of each of the non-director highest paid employees fell within the band of Nil to HK\$1,000,000 for the years ended 31 December 1999 and 2000.