

## 1 PRINCIPAL ACTIVITIES

The principal activities of the Group are currently investments, property development and management. With the changes in management, the Group has redefined its business directions into high-technology business.

## 2 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain 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 and the Group's attributable share of post-acquisition results and reserves of the jointly controlled entities and associated companies.

Results attributable to subsidiary companies, jointly controlled entities and associated companies acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal, as appropriate.

Gains or losses on the disposal of subsidiary companies, jointly controlled entities and associated 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 has not previously been charged or recognised in the consolidated profit and loss account.

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

### (b) Goodwill and capital reserve

Goodwill on consolidation represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiary companies, jointly controlled entities and associated companies 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, directly or indirectly, for the long-term or if the composition of the board of directors is controlled by the Group. Investments in subsidiary companies are carried in the Company's balance sheet at or below cost. Provision is made when, in the opinion of the Directors, there is a permanent diminution in value under the equity method.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (d) Associated companies

An associated company is a company, not being a subsidiary company, in which an equity interest is held for the long-term and significant influence is exercised in its management. Investments in associated companies are carried in the consolidated balance sheet at the Group's share of net assets under the equity method.

#### (e) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. Investments in jointly controlled entities are carried in the consolidated balance sheet at the Group's share of net assets under the equity method.

#### (f) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less depreciation.

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 are stated at their open market value based on independent professional valuations at the balance sheet date. Increases in valuations are credited to the investment properties revaluation reserve; decreases are first set off against earlier revaluation surplus on a portfolio basis and thereafter charged to the profit and loss account. Upon the disposal of an investment property, any relevant revaluation surplus is transferred to the profit and loss account.

No depreciation is provided in respect of investment properties held on leases more than twenty years. Depreciation of other fixed assets is calculated to write off the cost of the assets over their estimated useful lives, using reducing balance method, at the rate of 20% per annum.

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

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 their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

**2 PRINCIPAL ACCOUNTING POLICIES (Continued)****(g) Properties under development and held for sale**

Properties under development are stated at cost less any provision for diminution in value. Cost of properties in the course of development comprises land cost, development expenditure, professional fees, interest capitalised and other direct expenses.

Properties held for sale are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Where properties held for sale are transferred from investment properties, cost represents the open market value based on independent professional valuation at the date of transfer. A decrease in net realisable value subsequent to the transfer is charged to the profit and loss account. Upon disposal of the property held for sale, any relevant revaluation surplus realised is transferred to the profit and loss account.

**(h) Long-term investments**

Unlisted investments held for the long-term are stated at cost less provision for permanent diminution in value.

**(i) Borrowing costs**

Borrowing costs directly incurred on the acquisition, construction and development of properties that necessarily takes a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of the properties under development. All other borrowing costs are charged to the profit and loss account as they are incurred.

**(j) Operating lease**

Leases when 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 term of the relevant lease.

**(k) Deferred taxation**

Deferred taxation is accounted for at the current taxation rates 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.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (l) Revenue recognition

Sale of completed properties is recognised when the sale agreement is completed and legal title passed to the purchasers. When a development property is sold in advance of completion, sale is recognised over the course of the development and is computed as a proportion of the total sales to completion; the proportion used being the lower of the proportion of construction costs incurred at the balance sheet date to estimated total construction costs and the proportion of sales proceeds received and receivable at the balance sheet date to total sales proceeds.

Rental income is recognised on a straight-line basis over the term of the leases. Property management income is recognised on a time proportion basis or when the services are rendered. Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable. Dividend income is recognised when the right to receive payment is certain.

#### (m) 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.

#### (n) 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 rate of exchange ruling at that date. All exchange differences arising are dealt with in the profit and loss account.

The accounts of subsidiary companies, jointly controlled entities and associated 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 (Continued)

For the year ended 31st December 2000

### 3 TURNOVER

	2000	1999
	HK\$'000	HK\$'000
Sales of properties	33,000	166,100
Property rental	1,666	5,653
Building and project management fee	307	6,311
	<u>34,973</u>	<u>178,064</u>

Turnover represents gross proceeds from sales of properties, including properties for investment, under development and held for sale, rental and building and project management fee income.

An analysis of the turnover and operating results by principal activities is as follows:

	Turnover		Operating profit/(loss)	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property investment and development	34,666	171,753	(321)	133,840
Building and project management	307	6,311	307	2,737
Corporate	-	-	(48,258)	(42,251)
	<u>34,973</u>	<u>178,064</u>	<u>(48,272)</u>	<u>94,326</u>

The activities of the Group are primarily conducted in Hong Kong and the entire turnover and majority of the operating results are derived from Hong Kong.

### 4 COST OF SALES

Cost of sales include the following credit and charges:

	2000	1999
	HK\$'000	HK\$'000
Investment properties revaluation reserve realised	-	125,685
Write back of provision against properties held for sale	-	1,605
Provision against properties under development	-	(11,135)

## Notes to the Accounts (Continued)

For the year ended 31st December 2000

### 5 OTHER REVENUES

	2000 HK\$'000	1999 HK\$'000
Management fee from a jointly controlled entity	1,690	1,693
Interest	338	754
Profit on disposal of a subsidiary company	–	1,195
Profit on deemed disposal of an associated company	–	148
Exchange gain	–	572
Sundries	1,157	963
	<u>3,185</u>	<u>5,325</u>

### 6 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting:

	2000 HK\$'000	1999 HK\$'000
Profit on disposal of investment properties	–	2,098
Gross rental income	1,666	5,653
Less related outgoings	<u>(47)</u>	<u>(902)</u>

and after charging:

Depreciation	828	885
Staff costs (including directors' remuneration)	18,694	15,403
Operating lease rental expense for land and buildings	9,399	3,724
Auditors' remuneration	546	460
Loss on disposal of fixed assets, other than investment properties	353	1,022
Loss on disposal of subsidiary companies	<u>2,254</u>	<u>–</u>

**7 FINANCIAL EXPENSES**

	2000 HK\$'000	1999 HK\$'000
Interest expense		
Bank loans and overdrafts and other loans repayable within five years	13,048	29,545
Loan from a related company (note 20b)	236	506
	<u>13,284</u>	<u>30,051</u>

**8 DIRECTORS' REMUNERATION**

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

	2000 HK\$'000	1999 HK\$'000
Fees	1,084	407
Salaries and other emoluments	8,141	7,237
Discretionary bonuses	–	–
Retirement benefits	–	–
Compensation for loss of office	2,652	–
	<u>11,877</u>	<u>7,644</u>

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

Emolument bands	Number of directors	
	2000	1999
Nil to HK\$1,000,000	9	14
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$5,000,001 to HK\$5,500,000	–	1
	<u>12</u>	<u>15</u>

None of the Directors has waived the right to receive their emoluments. Fees paid to non-executive Directors during the year amounted to HK\$450,000 (1999: HK\$87,000).

The five individuals whose remuneration were the highest in the Group for both years are also Directors of the Company and their remuneration is set out above.

**9 TAXATION (CHARGE)/CREDIT**

	2000 HK\$'000	1999 HK\$'000
Company and subsidiary companies		
Hong Kong profits tax		
Provision for the year	(50)	(214)
Overprovision in prior years	4	393
	<u>(46)</u>	<u>179</u>
Jointly controlled entities		
Overseas taxation	(225)	188
Associated companies		
Overseas taxation	-	(111)
	<u>(271)</u>	<u>256</u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

In June 1999 and March 2000, the Inland Revenue Department (the "IRD") issued to a subsidiary company notices of assessment and demand for Hong Kong profits tax payable totalling approximately HK\$85.1 million in respect of profit from the disposal of properties under development in 1994 and 1995. The Directors are of the opinion that the profit arising from the sales of properties is capital in nature and therefore not subject to Hong Kong profits tax. The subsidiary company has filed objections against the assessments with the IRD and also applied to hold over the tax payable pending the outcome of the objections. The IRD has however refused to grant the hold over and commenced proceedings against the subsidiary company for the payment of the tax in question, together with surcharges, totalling approximately HK\$98.3 million. A court hearing in the legal proceedings regarding the payment of tax and surcharges is scheduled in May 2001. No other company within the Group is liable for any tax or surcharges payable by the subsidiary company and accordingly, if judgement is entered against the subsidiary company at such hearing, the rest of the Group will not provide funds to the subsidiary company to satisfy the judgement debt. In any event, at the same time, the objections to the tax and surcharges continue under review by the IRD and, if such review results in a determination unfavourable to the subsidiary company, the subsidiary company will appeal against such determination to the Board of Review of the IRD. Whether or not the subsidiary company has been properly assessed to the tax and surcharges will not be known within reasonable certainty until such review, determination and appeal procedures have been completed. However, the Directors consider that there are sufficient grounds to support their view that the profit is capital in nature and not subject to Hong Kong profits tax. Accordingly, no provision has been made in the accounts.



**10 (LOSS)/EARNINGS PER SHARE**

The calculation of loss per share is based on the loss attributable to shareholders of HK\$59,701,000 (1999: profit of HK\$24,798,000) and on the weighted average of 355,636,440 shares (1999: 236,194,391 shares) in issue during the year.

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

**11 FIXED ASSETS**
**Group**

	Investment properties HK\$'000	Properties under development HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation					
At 31st December 1999	71,000	8,000	2,929	1,652	83,581
Additions	–	–	1,255	–	1,255
Disposal of subsidiary companies	–	–	(19)	(70)	(89)
Disposals	<u>(26,000)</u>	<u>(8,000)</u>	<u>(493)</u>	<u>(736)</u>	<u>(35,229)</u>
At 31st December 2000	<u>45,000</u>	<u>–</u>	<u>3,672</u>	<u>846</u>	<u>49,518</u>
Accumulated depreciation					
At 31st December 1999	–	–	1,184	1,007	2,191
Charge for the year	–	–	749	79	828
Disposal of subsidiary companies	–	–	(15)	(70)	(85)
Disposals	<u>–</u>	<u>–</u>	<u>(281)</u>	<u>(420)</u>	<u>(701)</u>
At 31st December 2000	<u>–</u>	<u>–</u>	<u>1,637</u>	<u>596</u>	<u>2,233</u>
Net book value					
At 31st December 2000	<u>45,000</u>	<u>–</u>	<u>2,035</u>	<u>250</u>	<u>47,285</u>
At 31st December 1999	<u>71,000</u>	<u>8,000</u>	<u>1,745</u>	<u>645</u>	<u>81,390</u>

## 11 FIXED ASSETS (Continued)

### Company

	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost			
At 31st December 1999	2,236	896	3,132
Additions	291	–	291
Disposals	–	(736)	(736)
At 31st December 2000	<u>2,527</u>	<u>160</u>	<u>2,687</u>
Accumulated depreciation			
At 31st December 1999	708	531	1,239
Charge for the year	749	23	772
Disposals	–	(420)	(420)
At 31st December 2000	<u>1,457</u>	<u>134</u>	<u>1,591</u>
Net book value			
At 31st December 2000	<u>1,070</u>	<u>26</u>	<u>1,096</u>
At 31st December 1999	<u>1,528</u>	<u>365</u>	<u>1,893</u>

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

	2000 HK\$'000	1999 HK\$'000
Hong Kong		
Long-term lease	–	8,000
Medium-term lease	<u>45,000</u>	<u>71,000</u>
	<u>45,000</u>	<u>79,000</u>

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

The investment properties have been pledged to secure the bank facilities granted to the Group.