

for the year ended 31st December, 2000

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## 1. GENERAL

The Company is a listed public limited company incorporated in Hong Kong Special Administrative Region (“Hong Kong”).

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and a jointly controlled entity at 31st December, 2000 are set out in notes 46, 47 and 17 to the financial statements respectively.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities. The principal accounting policies adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are set out below:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### **Capital reserve/goodwill**

Capital reserve or goodwill arising on consolidation represents the shortfall or excess of the purchase consideration over the fair value of the Group’s share of the separable net assets at the date of acquisition of subsidiaries, associates or jointly controlled entities. Capital reserve and goodwill are credited and written off directly to reserves in the year of acquisition respectively.

The profit or loss on the disposal of a previously acquired business includes the attributable amount of capital reserve or goodwill previously eliminated against or credited to reserves relating to that business.

Capital reserve is allocated against non-monetary assets of the subsidiaries, associates or jointly controlled entity acquired and realised in accordance with the realisation of the underlying asset. Where the Group is unable to allocate the capital reserve with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding five years.

### **Foreign currencies**

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of the Group’s operations outside Hong Kong are translated at exchange rates ruling on the balance sheet date. Exchange differences arising, if any, are dealt with in reserves. On disposal of an operation outside Hong Kong, the balance on the translation reserve attributable to that operation is transferred to the income statement as part of the profit or loss on disposal of that operation.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Revenue recognition

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant building occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received, which are shown as a current liability. When the consideration is in the form of cash or cash equivalents, and the receipt of the consideration is deferred, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

When completed properties are acquired for resale, revenue is recognised on the execution of a binding sales agreement.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Sales of goods are recognised when goods are delivered and title has passed.

Sales of investments are recognised on trade date or contract date basis, where appropriate.

Service income is recognised when services are provided.

Interest income receivable from customers is recognised in the income statement on a time basis by reference to the principal outstanding and at the interest rate applicable, except in the case of loans which are overdue for which no interest is accrued in the income statement.

Interest income from bank deposits is accrued on a time apportionment basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

### Operating leases

Rentals payable on properties under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant leases.

### Bad and doubtful debts

Provisions for bad and doubtful debts are made, having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances. In determining the level of provision required, management considers numerous factors including but not limited to, domestic and international economic conditions, the composition of the loan portfolio and prior loan loss experience.

### Retirement benefit scheme contributions

The contributions payable to the Group's defined contribution retirement benefit scheme are charged to the income statement.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

### Fixed assets

Fixed assets other than investment properties and hotel property, are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation is provided to write off the cost of fixed assets other than investment properties and hotel property which are held on leases with an unexpired term of more than 20 years, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Long-term leasehold land	Over the remaining terms of the leases
Medium-term leasehold land	4%
Buildings	Over the estimated useful lives of 50 years or over the remaining terms of the leases, if less than 50 years
Leasehold improvements	20% to 33.3% or the term of the leases, if shorter
Furniture, fixtures and equipment	20% to 34%
Plant and machinery	7.5% to 13%
Motor vehicles and vessels	10% to 25%

The profit or loss arising on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

### Investment properties/hotel property

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### **Investment properties/hotel property (Cont'd)**

Investment properties and hotel properties are stated at their open market values based on professional valuations at the balance sheet date. Any surplus or deficit arising on the valuation of investment properties and hotel properties is credited or charged to the property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

No depreciation or amortisation is provided on investment properties and hotel property which are held on leases with an unexpired term of more than 20 years. It is the Group's practice to maintain the hotel property in a continual state of sound repair so that the property's value is not diminished by the passage of time. Depreciation is, however, provided on hotel furniture and fixtures. The cost of maintenance and repairs is charged to the income statement and the cost of significant improvements is capitalised.

On disposal of an investment property/hotel property, the balance on the property revaluation reserve attributable to that property is transferred to the income statement as part of the profit or loss on disposal of the property.

### **Properties under development**

Land and buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any impairment loss considered necessary by the Directors. Cost includes professional fees, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to such properties. Depreciation of these assets, calculated on the same basis as other property assets, commences when the assets are put into use.

### **Investments in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

### **Investments in associates**

An associate is an enterprise, other than a subsidiary or a jointly controlled entity, over which the Group is in a position to exercise significant influence in management, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, investments in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provides evidence of an impairment of the asset transferred.

Investments in associates are included in the Company's balance sheet at cost, as reduced by any decline in the value of the associate that is other than temporary. Results of associates are accounted for by the Company on the basis of dividends received or receivable during the year.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### **Interests in jointly controlled entities**

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

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the entity. The Group's share of post-acquisition results of the jointly controlled entity is included in the consolidated income statement.

When the Group transacts with its jointly controlled entity, unrealised profits are eliminated to the extent of the Group's interest in the relevant jointly controlled entity. Unrealised loss is eliminated to the extent of the Group's interest in the relevant jointly controlled entity, except where the transaction provides evidence of an impairment of the asset transferred.

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities which the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each year represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes (trading securities), unrealised gains and losses are included in net profit or loss for the year. For other securities (non-trading securities), unrealised gains and losses are dealt with in the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

### **Properties under development for sale/properties held for sale**

Properties under development for sales/properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development cost, borrowing costs and other direct costs attributable to such properties, net of any rental and interest income earned, until the relevant properties reach a marketable state. Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to completion and costs to be incurred in marketing and selling.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, comprising all costs of purchase and, where applicable, costs of conversion and other costs which have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value is based on estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Financial derivative products

Financial futures and forward contracts, options, commodities and similar derivative products, except for those designated as hedges, are valued at market rate, with both realised and unrealised gains and losses included in the income statement. Gains and losses related to these derivative products which are designated as hedges are dealt with in accordance with the accounting treatment applicable to the position hedged.

### Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, being assets which 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 proceeds from specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowings costs are recognised as an expense in the period in which they are incurred.

### Cash equivalents

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 advances.

## 3. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the gross proceeds received and receivable derived from the sale of goods, properties and property based investments, securities trading, consumer finance, investing in securities portfolios and other financial assets, property rental together with project and other property related services and the provision of consultancy and other services and is summarised as follows:

	2000 HK\$'000	1999 HK\$'000
Interest income on loans and advances to consumer finance customers	839,083	708,719
Securities trading	136,476	49,055
Sales of properties and property based investments	97,953	54,278
Other interest income	75,253	95,022
Management services	68,246	56,610
Property rental	48,540	39,825
Sales of goods	1,652	2,080
Dividend income	260	226
Consultancy fees	57	2,534
Other services rendered	–	563
	<u>1,267,520</u>	<u>1,008,912</u>

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### 3. TURNOVER AND SEGMENTAL INFORMATION (CONT'D)

An analysis of the Group's turnover and contribution to operating (loss) profit for the year by principal activity and geographical location of operations is as follows:

Business segments	Turnover		Contribution to (loss) profit from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By principal activity:				
Investment, finance and corporate services	1,051,129	856,119	476,948	455,853
Property rental and management services	116,786	96,435	(163,650)	28,911
Sale of properties and property based investments	97,953	54,278	(390,908)	(13,327)
Other sale of goods	1,652	2,080	(42)	129
	<u>1,267,520</u>	<u>1,008,912</u>	<u>(77,652)</u>	<u>471,566</u>
Other finance costs			(100,891)	(73,104)
Warrant reserve released on warrants expired during the year			43,487	–
Share of results of associates			136,393	156,771
Share of results of a jointly controlled entity			15,074	7,921
Profit before taxation			<u>16,411</u>	<u>563,154</u>

Geographical segments	Turnover		Contribution to (loss) profit from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By geographical location of operations:				
The Peoples' Republic of China				
Hong Kong	1,190,472	951,412	36,725	451,394
Mainland China	75,561	57,390	(31,572)	20,603
Others	1,487	110	(82,805)	(431)
	<u>1,267,520</u>	<u>1,008,912</u>	<u>(77,652)</u>	<u>471,566</u>
Other finance costs			(100,891)	(73,104)
Warrant reserve released on warrants expired during the year			43,487	–
Share of results of associates			136,393	156,771
Share of results of a jointly controlled entity			15,074	7,921
Profit before taxation			<u>16,411</u>	<u>563,154</u>

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**4. PROVISIONS FOR IMPAIRMENT LOSSES AND REVALUATION DEFICIT**

	2000 HK\$'000	1999 HK\$'000
Provisions for impairment losses and revaluation deficit comprise:		
Impairment loss provisions for:		
Properties under development for sale	313,796	–
Properties under development	71,931	–
Non-trading securities	25,461	–
Properties held for sale	11,022	–
	<u>422,210</u>	–
Deficit on revaluation of investment properties and hotel property	163,713	–
	<u>585,923</u>	–

**5. (LOSS) PROFIT FROM OPERATIONS**

	2000 HK\$'000	1999 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration		
Current year	2,589	2,479
Overprovision in previous years	(69)	(162)
	<u>2,520</u>	2,317
Depreciation and amortisation (note 6)	12,037	13,418
Net unrealised loss on trading securities	43,602	–
Rental payments in respect of properties under operating leases	23,555	21,771
Retirement benefit scheme contributions, net of forfeited contributions of HK\$1,091,000 (1999: HK\$294,000) (note 43)	5,442	5,839
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	146,070	134,324
Translation differences released in connection with the winding up of subsidiaries	43,000	–
and after crediting:		
Amortisation of capital reserve	2,595	–
Dividend income from investments in listed securities	260	226
Net unrealised gain on trading securities	–	3,377
Profit on disposal of investment properties	19,984	6,700
Profit on disposal of a jointly controlled entity	4,820	–
Rental income from investment properties under operating leases, net of outgoings of HK\$15,716,000 (1999: HK\$8,967,000)	<u>32,824</u>	<u>30,858</u>



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## 6. DEPRECIATION AND AMORTISATION

	2000 HK\$'000	1999 HK\$'000
Depreciation and amortisation	12,037	13,472
Less: Amount capitalised in respect of properties under development	–	(54)
	<b>12,037</b>	<b>13,418</b>

## 7. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

	2000 HK\$'000	1999 HK\$'000
Fees:	–	–
Other emoluments:		
Salaries and other benefits	8,734	10,200
Retirement benefit scheme contributions	64	90
	<b>8,798</b>	<b>10,290</b>
	<b>8,798</b>	<b>10,290</b>

The amounts disclosed above include other emoluments of HK\$2,421,000 (1999: HK\$2,472,000) payable to the Independent Non-Executive Directors.

In addition to the above, certain Directors of the Company had share options of the Company, details of which are set out in note 28.

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2000	1999
HK\$Nil – HK\$1,000,000	7	5
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$4,500,001 – HK\$5,000,000	–	1

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## 7. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

### (b) Employees' emoluments

The five highest paid individuals included one (1999: two) of the Directors, details of whose emoluments are set out in 7(a) above. The emoluments of the remaining four (1999: three) individuals are as follows:

	2000	1999
	HK\$'000	HK\$'000
Salaries and other benefits	10,932	8,999
Performance related incentive payments	9,800	8,800
Retirement benefit scheme contributions	491	435
	<b>21,223</b>	<b>18,234</b>

The emoluments of the above employees were within the following bands:

	Number of employees	
	2000	1999
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	2
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$11,500,001 – HK\$12,000,000	–	1
HK\$12,000,001 – HK\$12,500,000	1	–

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**8. FINANCE COSTS**

	2000 HK\$'000	1999 HK\$'000
Interest on:		
Consumer and other financing businesses:		
Bank borrowings wholly repayable within five years	26,418	26,700
Other borrowings wholly repayable within five years	22,666	14,752
	<u>49,084</u>	<u>41,452</u>
Other activities:		
Bank borrowings wholly repayable within five years	155,969	157,347
Other borrowings wholly repayable within five years	2,236	90
Bank borrowings not wholly repayable within five years	16,348	7,872
	<u>174,553</u>	<u>165,309</u>
Less: Amount capitalised in respect of properties under development	<u>(73,662)</u>	<u>(92,205)</u>
	<u>100,891</u>	<u>73,104</u>
	<u>149,975</u>	<u>114,556</u>
Total finance costs included in:		
Cost of sales	49,084	41,452
Other finance costs	100,891	73,104
	<u>149,975</u>	<u>114,556</u>

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## 9. TAXATION

	2000 HK\$'000	1999 HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	84,000	75,870
Overprovision in previous years	(199)	(7,234)
	<u>83,801</u>	<u>68,636</u>
Taxation outside Hong Kong	3	29
Share of taxation attributable to associates	10,917	24,432
Share of taxation attributable to a jointly controlled entity	1,337	2,365
	<u>96,058</u>	<u>95,462</u>

Hong Kong Profits Tax is calculated at the rate of 16% on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

Details of deferred taxation are set out in note 34.

## 10. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's loss attributable to shareholders of HK\$119,174,000 (1999: profit of HK\$237,121,000), a profit of HK\$87,000 (1999: HK\$66,075,000) has been dealt with in the financial statements of the Company.

## 11. DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2000 (1999: Nil).

## 12. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss attributable to shareholders of HK\$119,174,000 (1999: profit of HK\$237,121,000) and on the weighted average number of 3,422,308,745 (1999: 3,119,349,939) shares in issue during the year.

No diluted loss per share for the year is presented as the warrants and share options have no dilutive effect for the current year.

No diluted earnings per share has been presented for 1999 because the exercise price of the Company's warrants and share options were higher than the average market price of the Company's shares for that year.

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**13. FIXED ASSETS**

	Investment properties HK\$'000	Hotel property HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
<b>The Group</b>								
<b>Cost or Valuation</b>								
At 1st January, 2000	853,900	-	48,116	34,497	46,286	400	26,955	1,010,154
Exchange adjustments	-	-	3	1	(14)	1	4	(5)
Acquisition of a subsidiary	121,733	-	-	-	-	-	-	121,733
Transfer from properties under development (note 14)	1,450,993	449,093	-	-	-	-	-	1,900,086
Additions	1,516	-	-	5,316	10,758	-	734	18,324
Disposals	(22,337)	-	-	-	(593)	-	(414)	(23,344)
Disposal of property based subsidiaries	-	-	-	-	(300)	-	-	(300)
Deficit arising on revaluation	(386,805)	(14,078)	-	-	-	-	-	(400,883)
At 31st December, 2000	2,019,000	435,015	48,119	39,814	56,137	401	27,279	2,625,765
Comprising:								
At cost	-	-	48,119	39,814	56,137	401	27,279	171,750
At valuation in 2000	2,019,000	435,015	-	-	-	-	-	2,454,015
	2,019,000	435,015	48,119	39,814	56,137	401	27,279	2,625,765
<b>Depreciation and Amortisation</b>								
At 1st January, 2000	-	-	8,307	30,351	39,047	105	21,847	99,657
Exchange adjustments	-	-	1	-	(14)	-	4	(9)
Provided for the year	-	-	1,734	3,529	4,840	36	1,898	12,037
Eliminated on disposals	-	-	-	-	(306)	-	(414)	(720)
Eliminated on disposal of property based subsidiaries	-	-	-	-	(282)	-	-	(282)
At 31st December, 2000	-	-	10,042	33,880	43,285	141	23,335	110,683
<b>Net Book Values</b>								
At 31st December, 2000	2,019,000	435,015	38,077	5,934	12,852	260	3,944	2,515,082
At 31st December, 1999	853,900	-	39,809	4,146	7,239	295	5,108	910,497

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### 13. FIXED ASSETS (CONT'D)

The net book value of properties held by the Group at 31st December, 2000 and 1999 comprises:

	2000			1999		
	Investment properties HK\$'000	Hotel Property HK\$'000	Leasehold land and buildings HK\$'000	Investment properties HK\$'000	Hotel Property HK\$'000	Leasehold land and buildings HK\$'000
Leasehold properties in:						
Hong Kong						
Long-term	1,669,000	435,015	28,334	524,900	–	29,868
Medium-term	350,000	–	–	329,000	–	–
Mainland China						
Long-term	–	–	9,083	–	–	9,247
Medium-term	–	–	660	–	–	694
	<b>2,019,000</b>	<b>435,015</b>	<b>38,077</b>	<b>853,900</b>	<b>–</b>	<b>39,809</b>

The Group's investment properties are held for rental purposes under operating leases and the hotel property is held for hotel operations. The Group's investment properties and hotel property in Hong Kong were revalued on 31st December, 2000 by FPDSavills (Hong Kong) Limited, Chartered Surveyors, on an open market value basis, at HK\$2,454,015,000 (1999: HK\$853,900,000).

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### 13. FIXED ASSETS (CONT'D)

Of the deficit arising on revaluation attributable to the Group, HK\$86,374,000 has been charged against the property revaluation reserve as set out in note 29, HK\$163,713,000 has been charged to the income statement and HK\$150,796,000 has been borne by minority interests.

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>The Company</b>				
<b>Cost</b>				
At 1st January, 2000	7,838	8,677	997	17,512
Additions	—	178	285	463
At 31st December, 2000	7,838	8,855	1,282	17,975
<b>Depreciation</b>				
At 1st January, 2000	7,479	7,904	647	16,030
Provided for the year	209	461	238	908
At 31st December, 2000	7,688	8,365	885	16,938
<b>Net Book Values</b>				
At 31st December, 2000	150	490	397	1,037
At 31st December, 1999	359	773	350	1,482

### 14. PROPERTIES UNDER DEVELOPMENT

	The Group	
	2000 HK\$'000	1999 HK\$'000
At cost, less impairment loss provision:		
At 1st January	3,005,076	2,692,439
Exchange adjustments	391	330
Transfer to investment properties (note 13)	(1,450,993)	—
Transfer to hotel property (note 13)	(449,093)	—
Transfer to properties under development for sale	(1,230,036)	—
Additions, including interest of HK\$73,662,000 (1999: HK\$92,205,000) and depreciation and amortisation of HK\$Nil (1999: HK\$54,000) capitalised, net of impairment loss provision	245,972	312,307
Acquisition of a subsidiary	12,998	—
Disposal of property and property based subsidiaries	(12,640)	—
At 31st December	121,675	3,005,076

for the year ended 31st December, 2000

#### 14. PROPERTIES UNDER DEVELOPMENT (CONT'D)

The carrying value of properties under development held by the Group at 31st December, 2000 and 1999 comprises:

	2000 HK\$'000	1999 HK\$'000
Freehold properties in the United States of America	92,421	132,647
Long-term leasehold properties in Hong Kong	29,254	2,862,179
Medium-term leasehold properties in Mainland China	–	10,250
	<u>121,675</u>	<u>3,005,076</u>

At 31st December, 2000, the Group had interest capitalised of HK\$806,000 (1999: HK\$327,038,000) in respect of properties under development.

#### 15. INTEREST IN SUBSIDIARIES

	The Company	
	2000 HK\$'000	1999 HK\$'000
Listed securities in Hong Kong, at cost	592,273	592,273
Unlisted shares at cost, less impairment loss provision	840	840
Amounts due from subsidiaries, less impairment loss provision	1,638,012	1,625,935
	<u>2,231,125</u>	<u>2,219,048</u>
Market value of listed securities in Hong Kong	<u>180,026</u>	<u>215,980</u>

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries at 31st December, 2000 are set out in note 46.



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**16. INTEREST IN ASSOCIATES**

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Listed securities in Hong Kong (note 16(i))	1,889,428	1,699,450	–	–
Unlisted shares (note 16(ii))	1,596,457	1,561,483	–	–
Unlisted shares in Hong Kong, at cost	–	–	3,000	3,000
	<u>3,485,885</u>	<u>3,260,933</u>	<u>3,000</u>	<u>3,000</u>

Notes:

**(i) Listed securities in Hong Kong**

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Share of net assets	1,869,860	1,190,527	–	–
Listed non-redeemable convertible loan notes	–	489,194	–	–
Amount due from an associate	19,568	19,729	–	–
	<u>1,889,428</u>	<u>1,699,450</u>	<u>–</u>	<u>–</u>
Market value of listed shares	<u>946,585</u>	<u>734,757</u>	<u>–</u>	<u>–</u>

The listed non-redeemable convertible loan notes issued by Sun Hung Kai & Co. Limited (“Sun Hung Kai”) (“Notes”) bear interest at 8% per annum payable half yearly in arrears. The Notes were due on 31st December, 2000 and on that date the Notes were automatically converted into 326,190,000 new Sun Hung Kai shares (with 65,225,800 new SHK 2003 warrants) at the initial conversion price of HK\$1.50 per Note. The new Sun Hung Kai shares were allotted on 12th January, 2001. Accordingly, 47.31% and 29.06% of the issued share capital of Sun Hung Kai as enlarged by the shares issued pursuant to the issued Notes were held by a subsidiary and attributable to the Group respectively.

**(ii) Unlisted shares**

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Share of net assets	1,588,129	1,553,708	–	–
Amounts due from associates	8,328	7,775	–	–
	<u>1,596,457</u>	<u>1,561,483</u>	<u>–</u>	<u>–</u>

Particulars of the Company’s principal associates at 31st December, 2000 are set out in note 47.

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## 16. INTEREST IN ASSOCIATES (CONT'D)

Extracts of the consolidated operating results and financial position of the Group's significant associates, Sun Hung Kai (note 16(a)) and Allied Kajima Limited ("Allied Kajima") (note 16(b)), which are based on their audited consolidated financial statements, are as follows:

(a) Operating results of Sun Hung Kai for the years ended 31st December, 2000 and 1999:

	2000 HK\$'000	1999 HK\$'000
Turnover	619,614	658,124
Depreciation and amortisation	10,606	8,774
Profit before taxation	139,358	284,671
Profit attributable to shareholders of Sun Hung Kai	<u>116,231</u>	<u>217,591</u>
Profit before taxation attributable to the Group	<u>38,623</u>	<u>62,141</u>

Financial position at 31st December, 2000 and 1999:

	2000 HK\$'000	1999 HK\$'000
Non-current assets	3,134,356	3,016,729
Current assets	<u>2,665,291</u>	<u>2,689,132</u>
Total assets	<u>5,799,647</u>	<u>5,705,861</u>
Non-current liabilities	25,924	529,544
Current liabilities	<u>1,552,695</u>	<u>1,640,422</u>
Total liabilities	<u>1,578,619</u>	<u>2,169,966</u>
Minority interests	<u>1,600</u>	<u>14,021</u>
Shareholders' funds	<u>4,219,428</u>	<u>3,521,874</u>

Note: Sun Hung Kai Securities Limited ("SHKSL"), a wholly-owned subsidiary of Sun Hung Kai, issued proceedings against New World Development Company Limited (NWD) in December 1998, claiming, inter alia, the repayment of approximately HK\$35,000,000 paid by SHKSL to NWD as restitution of monies received by NWD in relation to a project in Kuala Lumpur, Malaysia.

NWD and its wholly-owned subsidiary, namely, Stapleton Developments Limited, issued proceedings against SHKSL, claiming, inter alia, the specific performance of SHKSL's commitment with them in respect of the development project to provide funding of approximately HK\$115,900,000, of which HK\$18,700,000 represents interest accrued.

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## 16. INTEREST IN ASSOCIATES (CONT'D)

(b) Operating results of Allied Kajima for the years ended 31st December, 2000 and 1999:

	2000 HK\$'000	1999 HK\$'000
Turnover	352,389	360,973
Depreciation and amortisation	14,452	16,711
Profit before taxation	96,588	88,750
Profit attributable to shareholders of Allied Kajima	<u>93,250</u>	<u>83,906</u>
Profit before taxation attributable to the Group	<u>29,829</u>	<u>25,009</u>

Financial position at 31st December, 2000 and 1999:

	2000 HK\$'000	1999 HK\$'000
Non-current assets	3,374,528	3,470,631
Current assets	<u>325,570</u>	<u>324,109</u>
Total assets	<u>3,700,098</u>	<u>3,794,740</u>
Non-current liabilities	526,637	586,319
Current liabilities	<u>141,537</u>	<u>131,093</u>
Total liabilities	<u>668,174</u>	<u>717,412</u>
Shareholders' funds	<u>3,031,924</u>	<u>3,077,328</u>
Contingent liabilities:		
Guarantees given by Allied Kajima to banks in respect of bank guarantees issued to the Inland Revenue Department in connection with tax disputes related to certain subsidiaries of Allied Kajima	<u>260,030</u>	<u>260,030</u>

Note: The financial statements of Allied Kajima include disclosures concerning the possible outcome of a tax dispute between subsidiaries of Allied Kajima and the Acting Commissioner of Inland Revenue in respect of assessments of profits raised by the Acting Commissioner in respect of the disposal of certain investment properties held by the subsidiaries in prior years. The outcome of the dispute could result in an additional tax liability for an aggregate amount of not more than HK\$249,000,000 to the Allied Kajima group. Whilst Allied Kajima's subsidiaries are strongly contesting the case, it is not possible to quantify the effects, if any, of the resolution of this uncertainty and accordingly, no provision has been made in the financial statements.

A fundamental uncertainty note relating to the abovementioned tax dispute has been included in the auditors' opinion of the financial statements of Allied Kajima.

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**17. INTEREST IN A JOINTLY CONTROLLED ENTITY**

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Share of net assets	–	51,636

The balance in 1999 represented the Group's interest in Shanghai Min Hoong Real Estate Development Co., Ltd, a corporation registered and operating in Shanghai, the People's Republic of China (the "PRC"), and principally engaged in a property development. Allied Properties (H.K.) Limited and its subsidiaries ("Allied Properties group") was entitled to share 60% of any profit or loss that would arise from certain phases of the property development project.

On 26th August, 2000, the Group entered into a settlement agreement with the holding company of the joint venture partner, by which the Group discharged all of its obligations to the jointly controlled entity at a consideration of HK\$81,000,000.

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**18. INVESTMENTS IN SECURITIES**

	Non-trading securities		Trading securities		Total	
	2000	1999	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Group</b>						
Listed equity securities						
Hong Kong	–	1,962	60,296	21,891	60,296	23,853
Outside Hong Kong	–	–	3,617	10,607	3,617	10,607
	–	1,962	63,913	32,498	63,913	34,460
Unlisted equity securities						
Hong Kong	51,144	44,639	–	–	51,144	44,639
Outside Hong Kong	408	25,949	–	–	408	25,949
	51,552	70,588	–	–	51,552	70,588
Unlisted financial derivative in Hong Kong						
	–	–	10,000	–	10,000	–
	51,552	72,550	73,913	32,498	125,465	105,048
Market value of listed securities at 31st December:						
Hong Kong	–	1,962	60,296	21,891	60,296	23,853
Outside Hong Kong	–	–	3,617	10,607	3,617	10,607
	–	1,962	63,913	32,498	63,913	34,460
Carrying amount analysed for reporting purposes as:						
Non-current	51,552	72,550	–	–	51,552	72,550
Current	–	–	73,913	32,498	73,913	32,498
	51,552	72,550	73,913	32,498	125,465	105,048

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### 19. LOANS AND ADVANCES

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Loans and advances to:		
Consumer finance customers	<b>2,050,606</b>	1,658,038
Others	<b>148,321</b>	185,068
	<b>2,198,927</b>	1,843,106
Provision for bad and doubtful debts	<b>(187,174)</b>	(163,028)
	<b>2,011,753</b>	1,680,078

The maturity profile of loans and advances to customers, net of provision for bad and doubtful debts, at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Repayable:		
On demand	<b>197,775</b>	166,572
Three months or less	<b>329,012</b>	356,950
One year or less but over three months	<b>1,081,619</b>	855,777
Five years or less but over one year	<b>403,347</b>	300,779
	<b>2,011,753</b>	1,680,078
Less: due within one year	<b>1,608,406</b>	1,379,299
Due after one year	<b>403,347</b>	300,779

There are no loans and advances which are overdue for more than one month and on which interest is still being accrued.

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## 19. LOANS AND ADVANCES (CONT'D)

### Gross loans and advances to customers by industry sectors

	2000 HK\$'000	1999 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial:		
Property development	34,079	–
Wholesale and retail trade	20,000	30,000
Manufacturing	1,000	1,900
Financial concerns (other than banks and financial institutions)	–	30,000
Others	13,604	43,606
Individuals:		
Loans for the purchase of residential properties	185,151	93,726
Others	1,945,093	1,643,874
	<b>2,198,927</b>	<b>1,843,106</b>

Loans and advances to consumers are classified by industry sectors based on the industry in which the loans granted were used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activity of the borrowers or by reference to the assets financed according to the loan documentation.

## 20. RECEIVABLE DUE AFTER ONE YEAR

The amount represents the balances of the consideration receivable, net of impairment loss provision, arising on the disposal of property based subsidiaries and a jointly controlled entity, and is payable as follows:

	The Group	
	2000 HK\$'000	1999 HK\$'000
Within one year	20,414	146,883
More than one year, but not exceeding two years	72,187	–
	<b>92,601</b>	146,883
Less: Amount repayable within one year and included in accounts receivable, deposits and prepayments shown under current assets	<b>(20,414)</b>	<b>(146,883)</b>
	<b>72,187</b>	<b>–</b>

## 21. PROPERTIES UNDER DEVELOPMENT FOR SALE

The Group's properties under development for sale, which are held under long leases in Hong Kong, are stated at the estimated net realisable value at the balance sheet date.

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## 22. PROPERTIES HELD FOR SALE

The Group's properties held for sale, which are held under medium-term leases in Hong Kong, are stated at net realisable value at the balance sheet date.

There was no cost of properties held for sale recognised as an expense during the year (1999: HK\$18,232,000).

## 23. INVENTORIES

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	244	271
Work in progress	88	32
Finished goods	179	171
Hotel operating supplies	73	–
	<b>584</b>	<b>474</b>

The cost of inventories recognised as an expense during the year was HK\$1,027,000 (1999: HK\$1,326,000).

The inventories are stated at cost for both years.

## 24. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

The average credit terms of the Group range from 30 to 180 days. Included in accounts receivable, deposits and prepayments are trade receivable totalling HK\$77,150,000 (1999: HK\$176,565,000), the aging analysis of which is as follows:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Aged:		
0 to 30 days	40,692	9,481
31 to 180 days	27,679	6,707
181 to 365 days	2,333	146,909
over 365 days	6,446	13,468
	<b>77,150</b>	<b>176,565</b>



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## 25. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payable of HK\$143,147,000 (1999: HK\$71,118,000), the aging analysis of which is stated as follows:

	The Group	
	2000 HK\$'000	1999 HK\$'000
Aged:		
0 to 30 days	42,768	42,446
31 to 180 days	21,223	6,233
181 to 365 days	51,895	2,891
over 365 days	27,261	19,548
	<b>143,147</b>	<b>71,118</b>

## 26. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1st January, 1999, 31st December 1999 and 31st December, 2000	6,500,000,000	1,300,000
Issued and fully paid:		
At 1st January, 1999 and 31st December 1999	3,119,349,939	623,870
Exercise of share options (note 28)	1,000,000	200
Exercise of warrant subscription rights (note 27)	390,388,369	78,078
Share repurchased and cancellable	(57,074,000)	(11,415)
At 31st December, 2000	<b>3,453,664,308</b>	<b>690,733</b>

During the year, the Company repurchased a total of 57,074,000 of its own ordinary shares at an aggregate cost of approximately HK\$35,712,000, which included transaction costs of approximately HK\$275,000, on The Stock Exchange of Hong Kong Limited. The repurchased shares were cancellable upon repurchase and accordingly the issued share capital of the Company was diminished by the nominal amount thereof. The premium on repurchase was charged against accumulated profits.

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## 27. WARRANTS

Pursuant to an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 18th February, 1997, an open offer of warrants in the proportion of one warrant for every five shares held was approved. A total of 614,456,947 warrants was issued at an issue price of HK\$0.20 per warrant on 7th March, 1997. Warrant holders are entitled to subscribe in cash for one fully paid share at an initial subscription price of HK\$1.00 per share, subject to adjustments, at any time from 7th March, 1997 to 7th March, 2000 (both days inclusive). At 31st December, 1999, 614,391,746 warrants were outstanding. During the year, 390,388,369 warrants were converted into ordinary shares at a subscription price of HK\$1.00 per share. As a result, cash of approximately HK\$390 million was received by the Company and an additional 390,388,369 new shares were issued. The remaining 224,003,377 warrants expired on 7th March, 2000.

## 28. SHARE OPTION SCHEME

Pursuant to the share option scheme ("Scheme") of the Company adopted on 29th June, 1992, the Board of Directors of the Company is authorised to grant options to any directors or full time employees of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average closing price of the Company's shares on the five trading days immediately preceding the offer of the options. The maximum number of shares issued or which may be issuable under the Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme from time to time. An option may be exercised at any time during a period not exceeding five years commencing one month after the date the option is accepted and expiring on the last day of such period or ten years from 29th June, 1992, whichever is the earlier.

The movement in the number of option shares under the Scheme during the year is as follows:

	<b>Number of option shares granted under the Scheme with an exercise price of HK\$0.90 per share</b>	
	<b>2000</b>	<b>1999</b>
Balance at 1st January	<b>2,000,000</b>	2,000,000
Exercised during the year	<b>(1,000,000)</b>	–
Lapsed during the year	<b>(1,000,000)</b>	–
Balance at 31st December	<b>–</b>	<b>2,000,000</b>

The options granted are exercisable in accordance with the terms and restrictions contained in the respective offer letters.

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**29. REVALUATION RESERVES**

	<b>Property revaluation reserve HK\$'000</b>	<b>Investment revaluation reserve HK\$'000</b>	<b>Total HK\$'000</b>
<b>The Group</b>			
At 1st January, 1999	148,631	(46,726)	101,905
Surplus (deficit) arising on revaluation	1,597	(1,963)	(366)
Adjustment to revaluation surplus due to overprovision for construction costs	462	–	462
Share of post-acquisition reserve movements of associates	35,850	31,525	67,375
Released on disposals	(6,306)	(7,695)	(14,001)
At 31st December, 1999	180,234	(24,859)	155,375
Surplus (deficit) arising on revaluation	(86,374)	6,505	(79,869)
Adjustment to revaluation surplus due to overprovision for construction costs	578	–	578
Share of post-acquisition reserve movements of associates	16,793	28,972	45,765
Released on disposals	(11,061)	(1,962)	(13,023)
At 31st December, 2000	100,170	8,656	108,826
Attributable to:			
Company and subsidiaries	96,857	1,962	98,819
Associates	83,377	(26,821)	56,556
At 31st December, 1999	180,234	(24,859)	155,375
Company and subsidiaries	–	6,505	6,505
Associates	100,170	2,151	102,321
At 31st December, 2000	100,170	8,656	108,826

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**30. ACCUMULATED PROFITS**

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
At 1st January	1,407,087	1,169,966	74,765	8,690
(Loss) profit attributable to shareholders	(119,174)	237,121	87	66,075
Premium on share repurchase	(24,297)	–	(24,297)	–
Transfer to capital redemption reserve on share repurchased	(11,415)	–	(11,415)	–
At 31st December	<u>1,252,201</u>	<u>1,407,087</u>	<u>39,140</u>	<u>74,765</u>

The accumulated profits of the Group include HK\$640,711,000 (1999: HK\$612,490,000) retained by associates. At 31st December, 1999, accumulated profits of HK\$7,309,000 were retained by the jointly controlled entity.

The Company's reserves available for distribution to shareholders as at 31st December, 2000 are represented by accumulated profits of HK\$39,140,000 (1999: HK\$74,765,000).

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**31. OTHER RESERVES**

	Share premium HK\$'000	Capital re- demption reserve HK\$'000	Translation reserve HK\$'000	Non dis- tributable reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Warrant reserve HK\$'000	Total HK\$'000
<b>The Group</b>							
At 1st January, 1999	1,505,681	-	(76,553)	55,226	189,438	119,276	1,793,068
Acquisition of additional interest in a subsidiary	-	-	-	-	46,148	-	46,148
Acquisition of an associate	-	-	-	-	(9,599)	-	(9,599)
Share of post-acquisition reserve movements of associates	-	-	(9,969)	-	2,159	-	(7,810)
Exchange differences on translation of operations outside Hong Kong	-	-	238	-	-	-	238
Released on disposal of an associate	-	-	(104)	-	265	-	161
Released on disposal of a subsidiary	-	-	1	-	-	-	1
At 31st December, 1999	1,505,681	-	(86,387)	55,226	228,411	119,276	1,822,207
Premium on issue of shares	313,011	-	-	-	-	-	313,011
Exercise of warrant subscription rights	75,789	-	-	-	-	(75,789)	-
Transfer from accumulated profits on share repurchase	-	11,415	-	-	-	-	11,415
Acquisition of additional interest in a subsidiary	-	-	-	-	126,640	-	126,640
Amortisation of capital reserve in respect of acquisition of shares in a subsidiary	-	-	-	-	(19,306)	-	(19,306)
Share of post-acquisition reserve movements of associates	-	-	(39,750)	-	(2,293)	-	(42,043)
Exchange differences on translation of operations outside Hong Kong	-	-	(1,474)	-	-	-	(1,474)
Acquisition of additional shares in associates	-	-	-	-	74,907	-	74,907
Acquisition of associates	-	-	-	-	(6,909)	-	(6,909)
Released on disposal of a property based subsidiary	-	-	(480)	-	-	-	(480)
Translation differences released in connection with the winding up of subsidiaries	-	-	26,415	-	-	-	26,415
Released on expiry of warrants	-	-	-	-	-	(43,487)	(43,487)
At 31st December, 2000	1,894,481	11,415	(101,676)	55,226	401,450	-	2,260,896

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**31. OTHER RESERVES (CONT'D)**

	Share premium HK\$'000	Capital re- demption reserve HK\$'000	Translation reserve HK\$'000	Non dis- tributable reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Warrant reserve HK\$'000	Total HK\$'000
<b>The Group</b>							
Attributable to:							
Company and subsidiaries	1,505,681	-	(24,728)	55,226	262,447	119,276	1,917,902
Associates	-	-	(61,659)	-	(34,036)	-	(95,695)
At 31st December, 1999	1,505,681	-	(86,387)	55,226	228,411	119,276	1,822,207
Company and subsidiaries	1,894,481	11,415	(267)	55,226	437,779	-	2,398,634
Associates	-	-	(101,409)	-	(36,329)	-	(137,738)
At 31st December, 2000	1,894,481	11,415	(101,676)	55,226	401,450	-	2,260,896

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Warrant reserve HK\$'000	Total HK\$'000
<b>The Company</b>				
At 1st January, 1999 and				
31st December, 1999	1,505,681	-	119,276	1,624,957
Premium on issue of shares	313,011	-	-	313,011
Exercise of warrant subscription rights	75,789	-	(75,789)	-
Transfer from accumulated profits on share repurchase	-	11,415	-	11,415
Released on expiry of warrants	-	-	(43,487)	(43,487)
At 31st December, 2000	1,894,481	11,415	-	1,905,896

The warrant reserve represents the proceeds received from the issue of warrants of the Company, net of warrant issue expenses less the transfer to share premium account upon the exercise of warrants.

Non distributable reserve represents the share of a subsidiary's capital redemption reserve.

Capital (goodwill) reserve represents reserve arising from consolidation.

**32. AMOUNTS DUE TO ASSOCIATES**

The amounts due to associates are unsecured and interest free. Amounts of HK\$20,270,000 (1999: HK\$35,105,000) are repayable on demand. An associate has agreed not to demand for repayment of the remaining balance of HK\$141,500,000 (1999: HK\$153,500,000) within twelve months from the balance sheet date and the balance is therefore shown as a non-current liability.

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**33. BANK AND OTHER BORROWINGS**

	The Group	
	2000 HK\$'000	1999 HK\$'000
Bank loans, overdrafts and other borrowings comprise:		
Bank loans	2,150,378	1,888,247
Overdrafts	71,502	117,631
Other borrowings	142,789	202,316
	<u>2,364,669</u>	<u>2,208,194</u>
Analysed as:		
Secured	2,310,666	2,141,439
Unsecured	54,003	66,755
	<u>2,364,669</u>	<u>2,208,194</u>
Bank loans and overdrafts are repayable as follows:		
Within one year or on demand	1,314,016	1,168,591
More than one year but not exceeding two years	210,933	397,176
More than two years but not exceeding five years	423,423	168,689
More than five years	273,508	271,422
	<u>2,221,880</u>	<u>2,005,878</u>
Other borrowings are repayable within one year or on demand	142,789	202,316
	<u>2,364,669</u>	<u>2,208,194</u>
Less: Amount repayable within one year and shown under current liabilities	<u>(1,456,805)</u>	<u>(1,370,907)</u>
Amount due after one year	<u>907,864</u>	<u>837,287</u>

Details of the assets of the Group and the Company pledged to secure bank and other borrowings are set out in note 44.

**34. DEFERRED TAXATION**

	The Group	
	2000 HK\$'000	1999 HK\$'000
Balance at 1st January	9,789	11,448
Released on disposal of investment properties	-	(1,659)
Balance at 31st December	<u>9,789</u>	<u>9,789</u>

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#### 34. DEFERRED TAXATION (CONT'D)

Deferred taxation mainly represents the taxation effect of the surplus arising on revaluation of certain investment properties at the date of transfer from properties held for sale.

Deferred taxation has not been provided on the other valuation surpluses or deficits arising on the valuation of investment properties as profits or losses arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

The net potential deferred tax (credit) charge arising in the year, which has not been recognised in the income statement, is as follows:

	The Group		The Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences in relation to:				
Excess (shortfall) of tax allowances over depreciation	88	(788)	(56)	(124)
Tax losses	(3,274)	(3,172)	3,210	(3,071)
General provision for bad and doubtful debts	(3,064)	(3,558)	–	–
Other timing differences	(686)	(685)	–	–
	<u>(6,936)</u>	<u>(8,203)</u>	<u>3,154</u>	<u>(3,195)</u>

At the balance sheet date, the net potential deferred tax asset in respect of timing differences which have not been recognised in the balance sheet, is analysed as follows:

	The Group		The Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences in relation to:				
(Shortfall) excess of tax allowances over depreciation	(297)	(385)	46	102
Tax losses carried forward	(39,264)	(35,990)	(11,997)	(15,207)
General provision for bad and doubtful debts	(16,178)	(13,114)	–	–
Other timing differences	2,743	3,429	–	–
	<u>(52,996)</u>	<u>(46,060)</u>	<u>(11,951)</u>	<u>(15,105)</u>

#### 35. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured, interest-free and has no fixed terms of repayment. The subsidiary will not demand repayment in the next twelve months and the amount is therefore shown as a non-current liability.



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**36. RECONCILIATION OF (LOSS) PROFIT FROM OPERATIONS TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2000 HK\$'000	1999 HK\$'000
(Loss) profit from operations	(77,652)	471,566
Impairment loss provision for properties under development for sale	313,796	–
Deficit on revaluation of properties	163,713	–
Impairment loss provision for properties under development	71,931	–
Impairment loss provision for properties held for sale	11,022	–
Net unrealised loss on trading securities	43,602	–
Translation differences released in connection with the winding up of subsidiaries	43,000	–
Impairment loss provision for non-trading securities	25,461	–
Depreciation and amortisation	12,037	13,418
Purchase of property based investment	(52,164)	–
Write back of provision for construction costs	(12,001)	–
(Profit) loss on disposal of property based subsidiaries	(10,330)	4,260
Profit on disposal of a jointly controlled entity	(4,820)	–
Amortisation of capital reserve	(2,595)	–
Profit on disposal of non-trading securities	(558)	(3,992)
Dividend income from investments in listed securities	(260)	(226)
Profit on disposal of fixed assets	(143)	(6,555)
Profit on disposal of an associate	–	(65)
Decrease in properties held for sale	–	18,232
Increase in inventories	(110)	(65)
Increase in trading securities	(85,017)	(9,560)
Increase in loans and advances	(331,675)	(153,840)
Decrease in accounts receivable, deposits and prepayments	142,640	119,851
Increase in amounts due from associates	(46,109)	–
Increase in accounts payable and accrued charges	76,686	6,701
Net cash inflow from operating activities	<b>280,454</b>	<b>459,725</b>

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**37. ACQUISITION OF SUBSIDIARIES**

	2000 HK\$'000	1999 HK\$'000
<b>Net assets acquired:</b>		
Fixed assets	121,733	–
Properties under development	12,998	–
Accounts receivable	67	–
Accounts payable	(8,128)	–
Investments in securities	–	1,100
	<u>126,670</u>	<u>1,100</u>
<b>Satisfied by:</b>		
Cash paid	126,670	–
Accounts receivable waived	–	1,100
	<u>126,670</u>	<u>1,100</u>
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash consideration paid	<u>126,670</u>	<u>–</u>

The subsidiaries acquired during the year utilised HK\$3,304,000 of the Group's net operating cash flow, utilised HK\$16,256,000 for investing activities and raised HK\$19,560,000 for financing activities.

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### 38. DISPOSAL OF PROPERTY BASED SUBSIDIARIES

	2000 HK\$'000	1999 HK\$'000
<b>Net assets disposed of:</b>		
Properties under development	10,452	–
Fixed assets	18	18,606
Interest in an associate	52,164	–
Accounts receivable, deposits and prepayments	7	130
Bank balances	50	–
Accounts payable and accrued charges	(53)	–
Taxation	–	(476)
	<u>62,638</u>	<u>18,260</u>
Translation reserve released upon disposal	(480)	–
Minority interests	(301)	–
Profit (loss) on disposal of property based subsidiaries	<u>10,330</u>	<u>(4,260)</u>
	<u><b>72,187</b></u>	<u><b>14,000</b></u>
<b>Satisfied by:</b>		
Accounts receivable	72,187	–
Cash received	–	14,000
	<u><b>72,187</b></u>	<u><b>14,000</b></u>
Analysis of the net (outflow) inflow of cash and cash equivalents in respect of the disposal of property based subsidiaries:		
Cash received	–	14,000
Bank balances disposed of	(50)	–
	<u><b>(50)</b></u>	<u><b>14,000</b></u>

The subsidiary disposed of during the year utilised HK\$52,164,000 (1999: contributed HK\$23,000) of the Group's net operating cash flow and paid HK\$128,000 for investing activities and raised HK\$52,315,000 for financing activities (1999: HK\$23,000 for servicing of finance).

These represent the Group's only major non-cash transactions during the year.

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**39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	Share capital and share premium HK\$'000	Bank and other borrowings HK\$'000	Amounts due to associates HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 1999	2,129,551	1,870,688	198,921	2,831,596	7,030,756
Exchange realignment	–	–	–	8	8
New bank and other borrowings	–	694,218	–	–	694,218
Repayment of bank and other borrowings	–	(624,753)	–	–	(624,753)
Amounts advanced from associates	–	–	46,604	–	46,604
Amounts repaid to associates	–	–	(56,140)	–	(56,140)
Disposal of an associate	–	–	(780)	–	(780)
Share of post-acquisition reserve movements	–	–	–	34,239	34,239
Decrease due to change in shareholding	–	–	–	(60,129)	(60,129)
Dividend to minority shareholders	–	–	–	(71,053)	(71,053)
Share of results for the year	–	–	–	230,571	230,571
At 31st December, 1999	2,129,551	1,940,153	188,605	2,965,232	7,223,541
Exchange realignment	–	15	–	(19)	(4)
Proceeds from issue of shares	391,289	–	–	–	391,289
Proceeds from issue of shares of a subsidiary	–	–	–	2	2
Amount paid on share repurchase	(35,712)	–	–	–	(35,712)
Transfer from warrant reserve	75,789	–	–	–	75,789
Premium on share repurchase	24,297	–	–	–	24,297
New bank and other borrowings	–	976,187	–	–	976,187
Repayment of bank and other borrowings	–	(641,735)	–	–	(641,735)
Amounts advanced from associates	–	–	3,613	–	3,613
Amounts repaid to associates	–	–	(30,453)	–	(30,453)
Decrease due to change in shareholding	–	–	–	(245,342)	(245,342)
Share of post-acquisition reserve movements	–	–	–	(84,297)	(84,297)
Dividend to minority shareholders	–	–	–	(46,450)	(46,450)
Disposal of property based subsidiaries	–	–	–	(301)	(301)
Share of results for the year	–	–	–	39,527	39,527
At 31st December, 2000	2,585,214	2,274,620	161,765	2,628,352	7,649,951

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#### 40. CONTINGENCIES

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantees given to banks in respect of credit facilities utilised by:				
Subsidiaries	–	–	167,000	165,000
A subsidiary of an associate	245,000	275,000	–	–
Short-term bank deposits pledged as securities against bank and other borrowings granted to a subsidiary of Tian An China Investments Company Limited	–	61,042	–	–
	<u>245,000</u>	<u>336,042</u>	<u>167,000</u>	<u>165,000</u>

#### 41. COMMITMENTS

	The Group	
	2000 HK\$'000	1999 HK\$'000
Capital expenditure contracted for but not provided for in the financial statements:		
For property development projects	73,250	299,566
Others	39,360	4,244
	<u>112,610</u>	<u>303,810</u>

At 31st December, 2000, the Group had no outstanding commitments (1999: HK\$217,150,000) as equity capital and working capital to subsidiaries and associates in Mainland China.

The Company did not have any outstanding commitments at 31st December, 2000 or 1999.

#### 42. LEASE COMMITMENTS

At 31st December, 2000, the Group and the Company had the following commitments payable in the following year under non-cancellable operating leases in respect of rented premises:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Operating leases which expire:				
Within one year	7,182	2,207	4,747	600
In the second to fifth year inclusive	10,141	18,905	–	5,421
	<u>17,323</u>	<u>21,112</u>	<u>4,747</u>	<u>6,021</u>

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#### **43. RETIREMENT BENEFIT SCHEME**

The Group operates defined contribution retirement benefit schemes for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group under provident funds managed by independent trustees.

The retirement benefits cost charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, in accordance with the terms of the schemes, the contributions payable by the Group are reduced by the amount of forfeited employer's contributions.

At 31st December, 2000 and 1999, there were no material forfeited contributions which arose when employees left the retirement benefit schemes before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in the future years.

These schemes have now been closed to new employees as a consequence of the new Mandatory Provident Fund Pension Legislation introduced by the Hong Kong Government.

From 1st December, 2000 onwards, the new staff in Hong Kong joining the Group are required to join the new Mandatory Provident Fund Scheme. The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the scheme.

#### **44. PLEDGE OF ASSETS**

At 31st December, 2000, certain of the Group's investment properties, hotel property, properties under development, properties under development for sale and properties held for sale with an aggregate carrying value of HK\$3,542,833,000 (1999: 3,908,211,000), securities in respect of a listed associate with an aggregate carrying value of HK\$1,889,428,000 (1999: HK\$1,699,450,000), loans and advances to consumer finance customers and bank balance of HK\$550,955,000 (1999: HK\$383,756,000) together with certain securities in respect of a listed subsidiary held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK\$1,957,672,000 (1999: HK\$1,957,672,000) were pledged to secure loans and general banking facilities to the extent of HK\$2,696,749,000 (1999: HK\$2,510,434,000) granted to the Group. Facilities amounting to HK\$2,310,666,000 (1999: HK\$2,141,439,000) were utilised at 31st December, 2000. At 31st December, 2000, certain of the Group's bank deposits of HK\$664,000 (1999: HK\$67,258,000) were pledged to secure banking facilities amounting to HK\$664,000 (1999: HK\$67,166,000).

At 31st December, 2000, certain of the Company's securities in a listed subsidiary with an aggregate carrying value of HK\$576,982,000 (1999: HK\$576,982,000) together with certain investments of its subsidiaries, were pledged to secure credit facilities to the extent of HK\$150,000,000 (1999: HK\$150,000,000) granted to its subsidiaries. No facilities were utilised at 31st December, 2000 (1999: HK\$147,084,000).

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#### 45. RELATED PARTY TRANSACTIONS AND BALANCES

The following is a summary of the significant transactions and balances with related parties during the year and as at year end.

	(Income)/Expense	
	2000	1999
	HK\$'000	HK\$'000
Interest income on listed non-redeemable convertible loan notes from an associate	(39,029)	(39,135)
Dividend income from associates	(30,847)	(41,568)
Property management and air-conditioning fees and other property related service fees from an associate	(15,383)	(15,971)
Interest income from a company, two directors of which are also Independent Non-Executive Directors of the Company	–	(1,561)
Administration and management fees from an associate	(2,235)	(1,360)
Interest income from associates	(1,573)	–
Rent, property management and air-conditioning fees from a company with a common director	(1,070)	(1,210)
Rent, property management and air-conditioning fees to an associate	11,808	9,349
Insurance premiums to an associate	1,316	1,233
Legal and professional fees paid and payable to a firm in which an Independent Non-Executive Director has significant influence	293	334
Interest expenses to a company, two directors of which are also Independent Non-Executive Directors of the Company	–	26,151
Dividend paid and payable to an associate	–	10,038
	<b>–</b>	<b>–</b>

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**45. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)**

- (a) During the year, both a subsidiary of the Group and the shareholder of an associate, each having a 50% interest in the associate, received and repaid various interest free loans from such associate. At 31st December, 2000, the amounts lent to that subsidiary totalled HK\$151,500,000 (1999: HK\$178,500,000).
- (b) Throughout the year, a subsidiary of the Group had a several guarantee outstanding which was provided to banks in respect of credit facilities utilised by a wholly-owned subsidiary of an associate. The guarantee provided was in proportion to the interest in the associate held by the Group's subsidiary and the amount at 31st December, 2000 was HK\$245,000,000 (1999: HK\$275,000,000).
- (c) All short-term bank deposits, which were pledged to secure loan facilities granted to a subsidiary of a company with a common director, amounting to RMB65,000,000 at 31st December, 1999 and equivalent to HK\$61,042,000, were released during the year.
- (d) On 26th August, 2000, the Group entered into an assignment agreement with the holding company of a joint venture partner for assigning to the Group a promissory note of HK\$51,786,000 issued by a company with a common director as part of the consideration for discharging the Group's obligations to the joint venture company in the PRC.

The promissory note carried interest at the rate of 2% per annum. The principal together with the accrued interest of the promissory note was received by the Group before the year end date.

- (e) A subsidiary and a property project under development in the PRC were disposed of to subsidiaries of a company with a common director for a consideration of HK\$52,187,000 and HK\$20,000,000 respectively which were satisfied by two promissory notes. The promissory notes bear interest at 4.74% per annum and are due in 2002.
- (f) During the year, the Group received a sum of HK\$6,785,000 (1999: HK\$6,376,000), being a part of the proceeds arising on the sale of properties by a jointly controlled entity.
- (g) During the year, the Group and an existing associate established a new associate for the acquisition of a company which is engaged in the consumer finance business. The Group and the existing associate each invested HK\$65,000,000 for 50% interest in the new associate.

None of the above related party transactions constitutes a discloseable connected transaction as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.



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#### 45. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

The balances due from (to) related parties at 31st December, 2000 and 1999 are summarised as follows:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Associates	(85,524)	(178,248)	(117)	(701)
A company with a common director	74,529	149,293	-	-
A company with two common directors	-	(273,276)	-	2
	<u>(10,995)</u>	<u>(302,231)</u>	<u>(117)</u>	<u>(699)</u>

The above amounts are included in the balance sheet of the Group and the Company in the following ways:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Interest in associates	27,896	1,184	-	-
Receivable due after one year	72,187	-	-	-
Accounts receivable, deposits and prepayments	5,032	149,449	-	-
Amounts due from associates	46,109	-	-	-
Cash and bank balances	-	194	-	2
Accounts payable and accrued charges	(449)	(774)	(117)	(701)
Amounts due to associates	(161,770)	(178,814)	-	-
Bank and other borrowings due within one year	-	(273,470)	-	-
	<u>(10,995)</u>	<u>(302,231)</u>	<u>(117)</u>	<u>(699)</u>

The above transactions have been entered into on terms agreed by the parties concerned.

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#### 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st December, 2000 which have their principal place of operations in Hong Kong are set out below:

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company* / subsidiaries %	attributable to the Group %	
AG Capital Limited	2	100	100	Share trading, money lending and business of consultancy
Alaston Development Limited	US\$1	100	61	Property holding
Allied Aquatic Produce Development Limited	50,000,000	100*	100	Investment holding
Allied Capital Management Limited	10,000	100	100	Securities trading
Allied Properties (H.K.) Limited	2,900,539,424	17* 44	61	Investment holding
Allied Real Estate Agency Limited	2	100	61	Real estate agency
AP Administration Limited	2	100	61	Provision of management and consultancy services
AP Corporate Services Limited	2	100	61	Provision of corporate services
AP Development Limited	2	100	61	Investment holding
AP Diamond Limited	US\$1	100	61	Property development
AP Emerald Limited	US\$1	100	61	Investment holding
AP Finance Limited	2	100	61	Provision of financial services
AP Property Management Limited	2	100	61	Building management
Artem Company Limited	2	100	61	Provision of management services
Capscore Limited	2	100*	100	Investment holding
Citiwealth Investment Limited	2	100*	100	Share trading and investment holding
Citymark Limited	2	100	61	Property development
Clever Winner Investment Limited	10	100	61	Property holding
Easy Capital Investments Limited	US\$1	100	51	Investment holding
Fame Arrow Company Limited	100,000	95	58	Loan financing
Florich Development Limited	10,000	100	61	Investment holding
Hillcrest Development Limited	20	100	61	Property holding

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**46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company* / subsidiaries %	attributable to the Group %	
Hi-Link Limited	200	100	61	Investment holding
Jaffe Development Limited	US\$1	100	61	Property holding
Kalix Investment Limited	2	100*	100	Property holding
King Policy Development Limited	2	100	61	Property holding
Maxplan Investment Limited	2	100	61	Securities trading
Mightyton Limited	10,000	100	61	Property holding
Ontone Limited	2	100	61	Hotel operations and property holding
Pioneer Alliance Limited	10,000	100	100	Investment holding
Polyking Services Limited	2	100	40	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	40	Building management
Rank Crown Investment Limited	2	100*	100	Investment holding
San Pack Properties Limited	10	100	61	Property holding
Sierra Joy Limited	2	100	61	Property holding
Sunhill Investments Limited	2	100*	100	Investment holding
United Asia Finance (Group) Limited	60,000,000	70	70	Investment holding
United Asia Finance Limited	137,500,000	73	51	Consumer financing

With the exception of Alaston Development Limited, AP Diamond Limited, AP Emerald Limited and Jaffe Development Limited, which were incorporated in the British Virgin Islands, all the above subsidiaries were incorporated in Hong Kong.

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#### 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Particulars of the Company's principal subsidiaries as at 31st December, 2000 which were incorporated and have their principal place of operation outside Hong Kong are set out below:

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by subsidiaries %	attributable to the Group %	Principal activity
Allied Land (Shenzhen) Limited	British Virgin Islands	US\$1	100	61	Investment holding
Allied Properties China Limited	Cayman Islands	US\$1,000	100	61	Investment holding
Elecrent Consultants Limited	British Virgin Islands	US\$1	100	61	Investment holding
Kenworld Corporation	Republic of Liberia	US\$1	100	61	Investment holding
Lakewood Development Corporation †	United States of America	US\$1,000	100	61	Property development and management

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of 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.

† Companies not audited by member firms of Deloitte Touche Tohmatsu.

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#### 47. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates as at 31st December, 2000 are set out below.

Associates	Place of incorporation/ operation	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital held by subsidiaries %	attributable to the Group %	Principal activity
Allied Kajima Limited	Hong Kong	1,000,000	50	31	Property and investment holding
SHK Finance Limited	Hong Kong	30,000,000	50	25	Consumer financing
Sun Hung Kai & Co. Limited †	Hong Kong	232,514,612	33*	20*	Investment holding

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

\* Upon the allotment of new Sun Hung Kai shares of the Group on 12th January, 2001 pursuant to the conversion of the Notes (as detailed in note 16), the beneficial interests held by a subsidiary and attributable to the Group became 47% and 29% respectively.

† Companies not audited by member firms of Deloitte Touche Tohmatsu.

#### 48. POST BALANCE SHEET EVENT

On 2nd March, 2001, a subsidiary of the Group entered into an agreement with a third party to dispose of a non-trading security with a fair value of HK\$23,600,000 at 31st December, 2000, for a consideration of HK\$23,600,000.

#### 49. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.