1. General

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 18.

2. Basis of preparation of financial statements

During the year, the Group through the Hong Kong Stock Exchange acquired approximately 57.8% interest in China Land Group Limited ("China Land" formerly known as China CyberPort Limited and Po Wing Kwan International (Holdings) Limited), a company listed on the Hong Kong Stock Exchange.

Following the acquisition, the Group was required to make a cash offer to acquire all the shares in China Land.

Upon the close of the cash offer, the Group held approximately 76.08% interest in China Land and less than 25% of shares in China Land were in the hands of the public. Subsequent to the balance sheet date, the Group disposed of 12,000,000 shares in China Land, representing approximately 1.1% of the issued shares capital, through the Hong Kong Stock Exchange and reduced its interest in China Land to 74.98%.

The financial statements of the Group have been prepared by consolidating the assets and liabilities of China Land as at 31st December, 2000 and its results since the date China Land became a subsidiary of the Group to 31st December, 2000 on the basis of a 74.98% equity interest in China Land. The approximately 1.1% interest in China Land, which were disposed of subsequent to the balance sheet date, were classified as investments in securities under current assets in the consolidated balance sheet of the Group.

3. Significant accounting policies

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment properties, hotel property and investments in securities.

The financial statements have been prepared in accordance with accounting principals generally accepted in Hong Kong. The principal accounting policies adopted 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 and associates which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a business or subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a businesses or subsidiary over the purchase consideration, is credited to reserves.

3. Significant accounting policies (continued)

Goodwill (continued)

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill arising on acquisition of businesses or subsidiaries.

On disposal of businesses, investments in subsidiaries or associates, goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the business, subsidiary or associate.

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 less provision for impairment in value, if necessary. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, 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, interests in associates are stated at the Group's share of the net assets of the associates.

Investments in associates are included in the Company's balance sheet at cost less provision for impairment in value, if necessary. The results of the associates are accounted for by the Company on the basis of dividends received and receivable.

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

Intangible asset

Intangible asset is stated at cost less amortisation and provision, if necessary, for any impairment in value. The cost of the intangible asset is amortised over a period of twenty years on a straight line basis.

Recognition of revenue

Revenue of the Group for the year is recognised on the following bases:

Sales of goods is recognised when goods are delivered and title has been passed to the customers.

3. Significant accounting policies (continued)

Recognition of revenue (continued)

Hotel revenue from rooms and other ancillary services are recognised when the services are rendered.

Income from sale of completed properties is recognised on the execution of a binding sale and purchase agreement.

Dividend income from investments in securities is recognised when the shareholders' rights to receive payment have been established.

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

Income from sale of newspaper is recognised when the newspapers are delivered.

Income from advertisement in newspaper is recognised when the relevant advertisement is published.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the respective leases.

Investment properties

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

Investment properties are stated at open market value based on professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment 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.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the disposed property is transferred to the income statement.

No depreciation or amortisation is provided on investment properties except where the unexpired term, including the renewal period, of the relevant lease is twenty years or less.

Property, plant and equipment

Properties under construction, toll highway and construction in progress

Properties under construction, toll highway and construction in progress are stated at cost, which includes land cost and the related construction cost and borrowing costs capitalised in accordance with the Group's accounting policies, less provision for impairment in value, if necessary. No depreciation or amortisation is provided on properties under construction, toll highway and construction in progress until the construction is completed and the properties, assets or toll highway are ready for use.

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

Hotel property

Hotel property (including its integral fixed plant) is stated at their open market value based on professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of the hotel property is credited or charged to the asset revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the asset 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 is provided on hotel property or on its integral fixed plant. It is the Group's policy to maintain these assets in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated lives of these assets and their high residual values, any depreciation would be insignificant.

Other property, plant and equipment

Property, plant and equipment, other than properties under construction, toll highway, construction in progress and hotel property, is 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 working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the 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.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where 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 the assets over their estimated useful lives, after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land and land use rights	Over the term of the lease or land use rights
Buildings	2% or the term of the lease or land use rights, if shorter
Furniture and fixtures	10% - 25%
Machinery and equipment	10% - 20%
Motor vehicles	12.5% - 25%

3. Significant accounting policies (continued)

Properties under/held for development

Properties under/held for development where no decision has yet been taken to re-sell or hold for long term purposes are stated at cost less provision for impairment in value, if necessary. No depreciation and amortisation is provided on properties under/held for development until the construction is completed and the properties are ready for their intended use.

Costs comprise land cost, construction costs, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to the properties under/held for development.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight line basis over the relevant lease term.

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 that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of 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 period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Capitalisation of borrowing costs

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

All other borrowing costs are recognised as expenses in the period in which they are incurred.

3. Significant accounting policies (continued)

Inventories

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

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated 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 subsidiaries and associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Exchange differences arising on consolidation are taken directly to reserves.

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 using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

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 advance.

4. Turnover

	2000	1999
	HK$'000	HK$'000
Sales of goods, net of returns and sales taxes	**3,091,851**	3,750,224
Hotel operation	**38,469**	—
Sales of properties	**12,500**	—
Publication of newspaper	**9,818**	—
Rental income	**5,420**	—
	3,158,058	3,750,224

The Group carries out its activities primarily the People's Republic of China ("PRC") including Hong Kong, details of the analysis of the Group's turnover and contribution to results from operations by principal activity and geographical market are set out in note 43.

5. Other revenue

	2000	1999
	HK$'000	HK$'000
Gain on disposal/dilution of interest in subsidiaries/ subsidiaries not consolidated/business (note a)	**16,892**	1,061,368
Add/(Deduct): Goodwill previously credited to/written off against reserves	**3,958**	(551,672)
Exchange reserve realised	**691**	2,717
Non-distributable reserves realised	**3,151**	4,736
	24,692	517,149
Gain (loss) on disposal/dilution of interest in associates (note b)	**15,436**	24,820
Add/(Deduct): Goodwill previously written off against reserves	**(3,751)**	(35,562)
Exchange reserve realised	**2,735**	(359)
Non-distributable reserves realised	**557**	(2,008)
	14,977	(13,109)
Gain on disposal of investments in securities	**—**	688,157
Unrealised gain on investments in securities	**—**	365,486
Interest income	**114,714**	26,571
Dividend income from listed investments	**6,509**	1,787
Write-back of provision for doubtful debts	**9,754**	—
Others	**39,727**	31,354
	210,373	1,617,395

Notes:

(a) The net gain on disposal/partial disposal of the interest in subsidiaries during the year comprises (i) the net gain on disposal of the Group's interest in China Estate (Holdings) Limited of HK$12,444,000; Yantai C.S.I. Pharmaceutical Company Limited of HK$30,241,000; and partial disposal of other subsidiaries of HK$5,036,000; and (ii) the net loss on disposal of the Group's interest in Wuxi C.S.I. Mechanical and Electrical Equipment Company Limited of HK$5,673,000 and Ningbo C.S.I. Power & Machinery Group Company Limited of HK$17,356,000.

The net gain on disposal/dilution of interest in subsidiaries/subsidiaries not consolidated/business in 1999 comprises (i) the net gain on disposal of the Group's interest in China Online (Bermuda) Limited ("China Online") of HK$366,458,000; (ii) the net gain on dilution and partial disposal of the Group's interest in Pacific Century CyberWorks Limited ("PCCW") of HK$228,221,000; (iii) loss on disposal of the Group's interest in Star Digitel Limited of HK$13,044,000; (iv) gain on disposal of the Group's paging business to China Motion Telecom (HK) Limited of HK$20,092,000; and (v) net loss on disposal of other subsidiaries of HK$84,578,000.

(b) The net gain on disposal/dilution of interest in associates during the year comprises (i) loss on disposal of the Group's interest in China Packaging Equipment (H.K.) Company Limited of HK$2,488,000; (ii) the net gain on dilution of the Group's interest in Asia Fiber Holdings Limited ("AFH" formerly known as Asia Resources Holdings Limited) of HK$7,407,000; and (iii) the net gain on dilution of the Group's interest in Pacificnet.com, Inc. ("Pacificnet" formerly known as Creative Master International, Inc.) of HK$10,058,000.

The net loss on disposal of interest in associates in 1999 comprises loss on disposal of the Group's interest in Bolton Group (International) Limited of HK$12,127,000 and China Brewery (Holdings) Limited of HK$982,000.