

Notes to Financial Statements

31 March 2001

1. CORPORATE REORGANISATION

Cosmopolitan International Holdings Limited (the “Company”) was incorporated in the Cayman Islands with limited liability on 26 March 1991. Pursuant to a Scheme of Arrangement under Section 166 of the Hong Kong Companies Ordinance (the “Scheme”) which became effective on 12 June 1991, the Company became the holding company of Cosmopolitan Properties and Securities Limited (“CPS”), a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). With effect from 12 June 1991, the Company was listed on the Stock Exchange in place of CPS.

2. CORPORATE INFORMATION

The principal place of business of Cosmopolitan International Holdings Limited is located at 5th Floor, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong.

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

- Securities trading
- Property rental

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Pursuant to the board resolution dated 12 December 2000, the Company has changed its financial year end from 31 December to 31 March to bring its accounting year end in line with the year of tax assessment in Hong Kong.

Accordingly, these financial statements are presented for a period of 15 months rather than for a period of 12 months as was adopted for the fiscal year ended 31 December 1999. Consequently, the comparative amounts for the profit and loss account, the statement of recognised gains and losses, the cash flow statement and related notes may not be comparable with those of the current fiscal 15-month period.

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 January 2000 to 31 March 2001. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Notes to Financial Statements *(continued)*

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

Subsidiaries

A subsidiary is a company in which the Company, directly and indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Investments in subsidiaries are stated at cost unless, in the opinion of the directors, there has been permanent diminution in values, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life of four years or over the lease period, whichever is shorter.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial period/year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

Notes to Financial Statements *(continued)*

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

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund Exempted ORSO retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the participating employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. When an employee leaves the Scheme prior to his/her interest in the Group’s employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Notes to Financial Statements *(continued)*

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

Revenue recognition

Securities trading is accounted for on the trade date basis, and gains and losses on investments are calculated on the average cost basis.

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividend income is recognised when the right to receive payment is established.

Revenue from the disposal of investment properties is recognised when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements (continued)

31 March 2001

4. TURNOVER AND REVENUE

Turnover represents the net results from securities trading and gross rental income received and receivable from investment properties during the period/year.

An analysis of the Group's turnover and revenue is as follows:

	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
Results from securities trading	(52,410)	91,024
Gross rental income from investment properties	9,728	7,978
Turnover	(42,682)	99,002
Interest income	2,631	1,739
Dividend income from listed investments	1,107	1,122
Net proceeds from disposal of an investment property	1,198	–
Other income	519	76
Total revenue	<u>(37,227)</u>	<u>101,939</u>

Notes to Financial Statements (continued)

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5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
Depreciation	605	580
Operating lease rentals in respect of land and buildings	2,305	1,842
Auditors' remuneration	998	626
Staff costs (excluding directors' remuneration – note 7):		
Salaries and other benefits	6,871	3,676
Pension contributions	129	43
Less: Forfeited contributions	(74)	(15)
Net pension contributions *	<u>55</u>	<u>28</u>
	<u>6,926</u>	<u>3,704</u>
Loss on disposal of fixed assets	–	2
Exchange losses, net	503	1,577
and after crediting:		
Gain on disposal of an investment property	1,103	–
Dividend income from listed investments	1,107	1,122
Interest income	2,631	1,739
Net rental income	<u>8,177</u>	<u>6,642</u>

* At 31 March 2001, there were no forfeited provident fund contributions available to reduce the Group's future provident fund contributions (year ended 31 December 1999: nil).

Notes to Financial Statements (continued)

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6. FINANCE COSTS

	Group	
	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
Interest on bank loans and overdrafts	<u>8,964</u>	<u>9,668</u>

7. DIRECTORS' REMUNERATION

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

	Group	
	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
Independent non-executive directors' fees	125	100
Executive directors:		
Fees	31	25
Salaries and other benefits	507	390
Pension scheme contributions	24	18
	<u>687</u>	<u>533</u>

The remuneration of each of the directors was below HK\$1,000,000.

There was no arrangement under which a director waived or agreed to waive any remuneration for the period (year ended 31 December 1999: nil).

Notes to Financial Statements (continued)

31 March 2001

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one (year ended 31 December 1999: one) director, details of whose remuneration are set out in note 7 above. Further details of the remuneration of the remaining four (year ended December 1999: four) non-director, highest paid employees are as follows:

	15 months ended 31 March 2001 HK\$'000	Group Year ended 31 December 1999 HK\$'000
Salaries, allowances and benefits in kind	2,494	1,533
Pension scheme contributions	51	19
	<u>2,545</u>	<u>1,552</u>

The remuneration of each of these employees was below HK\$1,000,000.

9. TAX

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the period. In last year, Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
Group:		
Hong Kong	–	(790)
Elsewhere	(9)	(29)
Overprovision in prior year	–	206
Tax charge for the period/year	<u>(9)</u>	<u>(613)</u>

The Group's net deferred tax assets not recognised in the financial statements amounted to approximately HK\$4,303,000 as at 31 March 2001 (31 December 1999: HK\$975,000) and was mainly represented by unutilised tax losses carried forward.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Notes to Financial Statements (continued)

31 March 2001

10. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$164,375,000 (year ended 31 December 1999: profit of HK\$35,659,000).

11. DIVIDEND

	Group	
	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
Proposed final – nil (year ended 31 December 1999: 30 cents) per ordinary share	<u>–</u>	<u>32,612</u>

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$198,439,000 (year ended 31 December 1999: profit of HK\$68,507,000) and on the weighted average of 108,702,434 (year ended 31 December 1999: 108,979,428) ordinary shares in issue during the period/year.

Diluted earnings/(loss) per share for the 15 months ended 31 March 2001 and the year ended 31 December 1999 has not been calculated as no diluting events existed during the period/year.

Notes to Financial Statements (continued)

31 March 2001

13. FIXED ASSETS**Group**

	Investment properties <i>HK\$'000</i>	Other assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:			
At beginning of period:			
Cost	–	4,482	4,482
Valuation	239,550	–	239,550
Additions	–	1,078	1,078
Disposals	(1,000)	–	(1,000)
Deficit on revaluation	(16,346)	–	(16,346)
Exchange realignments	(2,218)	(246)	(2,464)
At 31 March 2001	<u>219,986</u>	<u>5,314</u>	<u>225,300</u>
Accumulated depreciation:			
At beginning of period	–	3,402	3,402
Provided during the period	–	605	605
Exchange realignments	–	(154)	(154)
At 31 March 2001	<u>–</u>	<u>3,853</u>	<u>3,853</u>
Net book value:			
At 31 March 2001	<u>219,986</u>	<u>1,461</u>	<u>221,447</u>
At 31 December 1999	<u>239,550</u>	<u>1,080</u>	<u>240,630</u>

The investment properties are all held under long term leases as follows:

	31 March 2001 <i>HK\$'000</i>	31 December 1999 <i>HK\$'000</i>
Situated in:		
Hong Kong	200,100	220,760
Elsewhere	19,886	18,790
	<u>219,986</u>	<u>239,550</u>

Notes to Financial Statements (continued)

31 March 2001

13. FIXED ASSETS (continued)

The investment properties, which are situated in Hong Kong and the United Kingdom, were revalued on 31 March 2001 on an open market value, existing use basis by DTZ Debenham Tie Leung Limited, Registered Professional Surveyors and W.G. Edwards & Partners Limited, Chartered Surveyors, respectively. A revaluation deficit of HK\$16,346,000 (31 December 1999: HK\$8,763,000) resulting from the above valuation has been charged to the investment property revaluation reserve.

At 31 March 2001, certain of the Group's investment properties situated in Hong Kong with an aggregate carrying value of HK\$66,900,000 (31 December 1999: HK\$70,236,000) were pledged to secure general banking facilities granted to the Group (note 20).

Further particulars of the Group's investment properties are included on pages 43 to 44.

14. INTERESTS IN SUBSIDIARIES

	Company	
	31 March	31 December
	2001	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	298,005	298,005
Due from a subsidiary	12,185	11,946
Due to a subsidiary	(6,971)	(6,971)
	303,219	302,980
Less: Provision for diminution in values	(163,000)	–
	<u>140,219</u>	<u>302,980</u>

The amounts due from/to a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements (continued)

31 March 2001

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cosmopolitan Properties and Securities Limited	Hong Kong	HK\$1,000	100	–	Securities trading and property investment
Supernational Limited	Hong Kong	HK\$6,815,230	–	100	Securities trading
Village Properties Limited	Hong Kong	HK\$20	–	100	Property investment
Furada Limited*	Channel Islands	GBP12	–	100	Property investment

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

15. SHORT TERM INVESTMENTS

	Group	
	31 March 2001 HK\$'000	31 December 1999 HK\$'000
Listed equity investments, at market value:		
Hong Kong	41,218	1,522
Elsewhere	81,600	78,102
	<u>122,818</u>	<u>79,624</u>

Notes to Financial Statements (continued)

31 March 2001

16. ACCOUNTS RECEIVABLE

The aged analysis of the Group's and the Company's accounts receivable is as follows:

	Group		Company	
	31 March	31 December	31 March	31 December
	2001	1999	2001	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 – 60 days	8,301	60,759	–	–
61 – 90 days	50	112	–	–
Over 90 days	86	301	10	9
	8,437	61,172	10	9

Sales proceeds from securities trading are receivable in accordance with the settlement terms of the respective stock market practice, and rental income from investment properties is normally receivable in advance each month during the term of tenancy. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 March	31 December	31 March	31 December
	2001	1999	2001	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	2,137	46,306	340	437
Time deposits	6,809	28,937	–	–
	8,946	75,243	340	437

Notes to Financial Statements (continued)

31 March 2001

18. ACCOUNTS PAYABLE

The aged analysis of the Group's and the Company's accounts payable is as follows:

	Group		Company	
	31 March	31 December	31 March	31 December
	2001	1999	2001	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 – 60 days	24	58,439	–	29
61 – 90 days	–	–	–	–
Over 90 days	12	12	–	–
	36	58,451	–	29

19. INTEREST-BEARING BANK BORROWINGS

	<i>Note</i>	Group	
		31 March	31 December
		2001	1999
		HK\$'000	HK\$'000
Bank overdrafts – secured	20	49,792	34,835
Bank overdrafts – unsecured	20	–	1,294
Current portion of bank loans – secured	20	49,608	6,473
		99,400	42,602

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20. INTEREST-BEARING BANK BORROWINGS AND OVERDRAFTS

	Group	
	31 March	31 December
	2001	1999
	HK\$'000	HK\$'000
Bank overdrafts:		
Secured	49,792	34,835
Unsecured	—	1,294
	<u>49,792</u>	<u>36,129</u>
Bank loans – secured	<u>53,895</u>	<u>11,095</u>
	<u>103,687</u>	<u>47,224</u>
Bank overdrafts repayable within one year or on demand	<u>49,792</u>	<u>36,129</u>
Bank loans repayable:		
Within one year	49,608	6,473
In the second year	307	266
In the third to fifth years, inclusive	1,106	969
Beyond five years	2,874	3,387
	<u>53,895</u>	<u>11,095</u>
	<u>103,687</u>	<u>47,224</u>
Portion classified as current liabilities – note 19	<u>(99,400)</u>	<u>(42,602)</u>
Long term portion	<u>4,287</u>	<u>4,622</u>

Certain of the Group's bank loans and overdrafts are secured by:

- (i) legal charges over the Group's investment properties situated in Hong Kong which had an aggregate carrying value of HK\$66,900,000 (31 December 1999: HK\$70,236,000) at 31 March 2001;
- (ii) floating charges over the Group's investment portfolio with an aggregate carrying value of HK\$97,260,000 (31 December 1999: HK\$52,558,000) at 31 March 2001; and
- (iii) a corporate guarantee executed by the Company (note 26).

Notes to Financial Statements (continued)

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21. OTHER NON-CURRENT LIABILITIES

	Group	
	31 March	31 December
	2001	1999
	HK\$'000	HK\$'000
Loans from a director	115,572	–
Government lease regrant premium	39	74
Tenant deposits due after one year	1,417	1,000
	<u>117,028</u>	<u>1,074</u>

The loans from a director, Mr. Eric Edward Hotung, are unsecured, interest-free and not repayable within one year.

22. SHARE CAPITAL

	31 March	31 December
	2001	1999
	HK\$'000	HK\$'000
Authorised:		
200,000,000 ordinary shares of HK\$0.10 each	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:		
108,659,267 (31 December 1999: 108,816,267) ordinary shares of HK\$0.10 each	<u>10,866</u>	<u>10,882</u>

Notes to Financial Statements (continued)

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22. SHARE CAPITAL (continued)

During the period, the Company repurchased 157,000 ordinary shares (year ended 31 December 1999: 276,931) of HK\$0.10 each of the Company on the Stock Exchange as follows:

Month	Number of shares	Price per share		Total consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January 2000	46,000	2.8543	2.5237	122
February 2000	12,000	2.9543	2.8376	34
March 2000	13,000	3.0043	2.8543	38
April 2000	40,000	2.9112	2.9112	116
May 2000	11,000	3.0373	2.9538	33
September 2000	1,000	2.5042	2.5042	2
October 2000	8,000	2.4907	2.4032	20
November 2000	6,000	2.4782	2.4532	15
December 2000	5,000	2.5042	2.5032	13
January 2001	4,000	2.5042	2.4042	10
February 2001	11,000	2.4656	2.3112	27
	<u>157,000</u>			<u>430</u>

The repurchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK\$414,000 (year ended 31 December 1999: HK\$666,000) has been charged against the retained profits. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the period was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Notes to Financial Statements (continued)

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22. SHARE CAPITAL (continued)

A summary of the transactions during the period/year with reference to the above movements of the Company's ordinary share capital is as follows:

	Carrying amount		Shares issued	
	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000	15 months ended 31 March 2001	Year ended 31 December 1999
At beginning of period/year	10,882	10,909	108,816,267	109,093,198
Shares repurchased	(16)	(27)	(157,000)	(276,931)
At the end of period/year	<u>10,866</u>	<u>10,882</u>	<u>108,659,267</u>	<u>108,816,267</u>

23. RESERVES

	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ losses (accumulated) HK\$'000	Total HK\$'000
Group							
At 1 January 1999	166	28,309	(1,269)	191,027	26,801	77,223	322,257
Deficit on revaluation	-	-	-	(8,763)	-	-	(8,763)
Exchange realignments	-	-	(465)	-	-	-	(465)
Net profit for the year	-	-	-	-	-	68,507	68,507
Repurchase of shares	27	-	-	-	-	(693)	(666)
Dividend	-	-	-	-	-	(32,612)	(32,612)
At 31 December 1999 and 1 January 2000	193	28,309	(1,734)	182,264	26,801	112,425	348,258
Deficit on revaluation	-	-	-	(16,346)	-	-	(16,346)
Exchange realignments	-	-	(2,857)	204	-	-	(2,653)
Net loss for the period	-	-	-	-	-	(198,439)	(198,439)
Repurchase of shares	16	-	-	-	-	(430)	(414)
Released on disposal	-	-	-	(905)	-	-	(905)
At 31 March 2001	<u>209</u>	<u>28,309</u>	<u>(4,591)</u>	<u>165,217</u>	<u>26,801</u>	<u>(86,444)</u>	<u>129,501</u>

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23. RESERVES (continued)

	Capital redemption reserve	Contributed surplus	Retained profits/ (accumulated losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Company				
At 1 January 1999	166	290,621	815	291,602
Net profit for the year	–	–	35,659	35,659
Repurchase of shares	27	–	(693)	(666)
Dividend	–	–	(32,612)	(32,612)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999 and 1 January 2000	193	290,621	3,169	293,983
Net loss for the period	–	–	(164,375)	(164,375)
Repurchase of shares	16	–	(430)	(414)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	<u>209</u>	<u>290,621</u>	<u>(161,636)</u>	<u>129,194</u>

The Group's contributed surplus represents the excess of the par value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in 1991, net of subsequent distributions therefrom.

The Company's contributed surplus represents the difference between the fair value of the subsidiaries acquired pursuant to the Group reorganisation in 1991 and the par value of the shares issued by the Company therefor.

Under the Companies Law of the Cayman Islands, the contributed surplus is distributable under certain specific circumstances.

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24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

	15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
Profit/(loss) from operating activities	(189,466)	78,788
Gain on disposal of investment properties	(1,103)	–
Depreciation	605	580
Interest income	(2,631)	(1,739)
Loss on disposal of fixed assets	–	2
Decrease/(increase) in accounts receivable	52,735	(15,318)
Decrease/(increase) in other receivables and deposits	41,759	(42,217)
Decrease/(increase) in short term investments	(43,194)	399
Increase/(decrease) in accounts payable	(58,415)	58,343
Increase/(decrease) in accruals and other liabilities	603	(5,902)
Increase in other non-current liabilities	382	739
Net cash inflow/(outflow) from operating activities	<u>(198,725)</u>	<u>73,675</u>

- (b) Analysis of changes in financing during the period/year

	Reserves HK\$'000	Bank loans HK\$'000	Loans from a director HK\$'000
Balance at 1 January 1999	322,257	5,086	–
Deficit on revaluation of investment properties	(8,763)	–	–
Exchange realignments	(465)	–	–
Net profit for the year	68,507	–	–
Repurchase of shares	27	–	–
Dividend	(32,612)	–	–
Net cash outflow from financing	(693)	(222)	–
Balance at 31 December 1999 and 1 January 2000	348,258	4,864	–
Deficit on revaluation of investment properties	(16,346)	–	–
Release on disposal of an investment property	(905)	–	–
Exchange realignments	(2,653)	–	–
Net loss for the period	(198,439)	–	–
Repurchase of shares	16	–	–
Net cash inflow/(outflow) from financing	(430)	(297)	115,572
Balance at 31 March 2001	<u>129,501</u>	<u>4,567</u>	<u>115,572</u>

Notes to Financial Statements (continued)

31 March 2001

25. COMMITMENTS

- (a) Capital commitments

	Group	
	31 March	31 December
	2001	1999
	HK\$'000	HK\$'000
Contracted, but not provided for	<u>—</u>	<u>183</u>

- (b) At 31 March 2001, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	31 March	31 December
	2001	1999
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	596	998
In the second to fifth years, inclusive	<u>739</u>	<u>1,776</u>
	<u>1,335</u>	<u>2,774</u>

At the balance sheet date, the Company had no material commitments.

26. CONTINGENT LIABILITIES

	Group		Company	
	31 March	31 December	31 March	31 December
	2001	1999	2001	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks for facilities granted to subsidiaries	<u>—</u>	<u>—</u>	<u>91,963</u>	<u>91,963</u>

As at 31 March 2001, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$54.4 million (31 December 1999: HK\$39.7 million).

Notes to Financial Statements (continued)

31 March 2001

27. RELATED PARTY TRANSACTIONS

During the period/year, save as the transaction disclosed in note 21 to the financial statements, the Group had the following transactions with Mr. Eric Edward Hotung and companies of which Mr. Eric Edward Hotung is also a director:

		15 months ended 31 March 2001 HK\$'000	Year ended 31 December 1999 HK\$'000
Rental income from a director	(a)	404	358
Rental income from a related company wholly owned by Mr. Eric Edward Hotung and his associates	(b)	–	3,086
Management fee expense to a related company	(c)	<u>150</u>	<u>120</u>

Notes:

- (a) During the period/year, the Group let properties to Mr. Eric Edward Hotung, a director and substantial shareholder of the Company, for the purpose of storing his own personal effects. The rental was calculated by reference to open market values.
- (b) During the year ended 31 December 1999, the Group let properties to Hotung Estates Limited, a company wholly owned by Mr. Eric Edward Hotung and his associates. The rental was calculated by reference to open market values resulting in a total rental income of HK\$3,086,000 for the period from 1 January 1999 to 17 June 1999. The tenancy agreement expired on 17 June 1999 and was not renewed.
- (c) The management fee expense was paid to the related company for providing management services for the Group's investment properties. The management fee was charged at a monthly fixed amount as agreed between the parties, with reference to the time and costs incurred by the related company.
- (d) During the period, Mr. Eric Edward Hotung granted loans of HK\$115,572,000 to the Group. These loans are unsecured, interest-free and not repayable within one year and included in other non-current liabilities.

28. COMPARATIVE AMOUNTS

Last year the unrealised holding losses on listed investments were included as part of the other operating expenses. In view of the nature of the securities trading, the directors consider it more appropriate to disclose the unrealised holding losses separately. Accordingly, other operating expenses have been restated to accord with this presentation.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 July 2001.