

Notes to the Financial Statements

for the year ended 31st March, 2001

I. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The activities of its subsidiaries, associates and jointly controlled entity are set out in notes 40, 41 and 42, respectively.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted the following revised or new Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants for the first time:

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 10 (Revised)	Accounting for investments in associates
SSAP 17 (Revised)	Property, plant and equipment
SSAP 18 (Revised)	Revenue
SSAP 21 (Revised)	Accounting for interests in joint ventures
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

With the exception of SSAP 30, the adoption of the above standards has had no material effect on amounts reported in prior years.

In accordance with SSAP 30, goodwill or negative goodwill that was previously charged or credited against reserves has been retrospectively recognised as an asset or presented as a deduction from assets. The effect of this change has been to decrease the goodwill reserve and increase deficit at 1st April, 1999 by HK\$94,749,000 and HK\$79,717,000 respectively, and to increase the loss in the current year by HK\$78,212,000 (2000: HK\$11,050,000).

All of the SSAPs listed above have been applied in advance of their effective dates.

Notes to the Financial Statements

for the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

The results of subsidiaries 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.

On acquisition or disposal, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

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

Goodwill

Goodwill or negative goodwill arising on the acquisition of a subsidiary, an associate or a jointly controlled entity represents respectively the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets of the subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and is amortised using the straight line method over its estimated useful life. For subsidiaries, associates and jointly controlled entities currently held, the amortisation period ranges from 3 to 20 years. Negative goodwill arising on acquisitions is recognised as income on a systematic basis over the remaining weighted average useful life of the non-monetary assets acquired.

Revenue recognition

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

When the outcome of an engineering services contract can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of an engineering services contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Notes to the Financial Statements

for the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

When a property is developed for sale, income is recognised only when the property or any portion of it contracted for sale is completed and the appropriate building occupation permit has been granted by the relevant authorities.

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

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

Profits and losses arising on trading in securities are recognised on a trade-date basis.

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

Investment properties

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

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

On subsequent disposal of an investment property, any revaluation surplus thereon is included in the determination of the profit and loss on disposal.

No depreciation is provided in respect of investment properties which are held under leases with unexpired terms, including the renewable period, of more than twenty years.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, 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 present working condition and location for its intended use.

Notes to the Financial Statements

for the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

The gain or loss arising from the 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 consolidated income statement.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	4% or over the remaining terms of the relevant leases, if shorter
Furniture, fixtures and machinery	10% – 20%
Motor vehicles	10% – 20%

Construction in progress is stated at cost and is transferred to a specific category of assets when completed. Cost comprises all direct costs incurred in relation to construction. The costs of construction in progress are not depreciated until the assets are put into commercial use.

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 as reduced by any identified impairment loss. Cost comprises the cost of land together with the direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development.

Subsidiaries

A subsidiary is an enterprise over which the Company has control, either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Financial Statements

for the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Associates

An associate is an enterprise, other than a subsidiary, 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, as reduced by any identified impairment loss.

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 asset transferred.

Joint ventures

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 consolidated income statement includes the Group's share of the post-acquisition results of its jointly controlled entities for the year. In the consolidated balance sheet, interests in jointly controlled entities are stated at the Group's share of the net assets of the jointly controlled entities, as reduced by any identified impairment loss.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity, except where unrealised losses provide 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.

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 identified impairment loss.

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

Notes to the Financial Statements

for the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

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

Engineering services contracts

When the outcome of an engineering services contract can be estimated reliably, contract costs are charged to the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue recognised.

When the outcome of an engineering services contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting 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 asset will crystallise in the foreseeable future.

Assets held under finance leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding principal portions of the commitments are shown as obligations of the Group. The finance charges, which represent the difference between the total commitments and the outstanding principal amount at the inception of the finance leases, are charged to the income statement using the actuarial method over the periods of the respective leases.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight-line basis over the periods of the respective leases.

Notes to the Financial Statements

for the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Capitalisation of borrowings costs

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

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries, associates and jointly controlled entities denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on translation are dealt with in reserves.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, and goodwill, to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements

for the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as the result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Retirement benefits scheme

The amount of the contributions payable to the Group's defined contribution retirement scheme and Mandatory Provident Fund is charged to the consolidated income statement.

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.

4. TURNOVER AND CONTRIBUTION TO LOSS FROM OPERATIONS

An analysis of the Group's turnover and contribution to loss from operations, analysed by principal activity, is as follows:

	Turnover HK\$'000	2001 Contribution to loss from operations HK\$'000	Turnover HK\$'000	2000 Contribution to loss from operations HK\$'000
Trading of air conditioning equipment and provision of engineering related services	28,851	8,103	26,687	2,519
Trading of pharmaceutical products	7,661	(6,968)	8,924	(132)
Trading of motorcycles	8,517	8	8,419	(5,441)
General trading	1,612	(1,240)	4,402	(365)
Property development and investment	2,182	(30,124)	3,183	(17,062)
Department store	–	(1,554)	–	(130)
	<u>48,823</u>	<u>(31,775)</u>	<u>51,615</u>	<u>(20,611)</u>
Corporate expenses and others		(10,688)		(3,717)
Amortisation of goodwill		(31,657)		(11,050)
Recognition of negative goodwill as income		7,829		–
Loss from operations		<u>(66,291)</u>		<u>(35,378)</u>

Over 90% of the Group's turnover and contribution to loss from operations are derived from the People's Republic of China, including Hong Kong.

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for the year ended 31st March, 2001

5. OTHER OPERATING LOSSES

	2001	2000
	HK\$'000	HK\$'000
Other operating losses comprise:		
Impairment loss recognised in respect of properties under development	13,204	12,585
Deficit arising on revaluation of investment properties	10,370	433
Impairment loss recognised in respect of construction in progress	3,681	–
Impairment loss recognised in respect of investment securities	772	–
Net unrealised holding loss on other investments	2,299	876
Loss on disposal of leasehold properties	–	1,144
Impairment loss recognised in respect of leasehold properties	–	6,254
	<u>30,326</u>	<u>21,292</u>

6. LOSS FROM OPERATIONS

	2001	2000
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration:		
– current year	850	771
– overprovision in previous year	–	(48)
Depreciation and amortisation on		
– owned assets	1,291	1,441
– asset held under a finance lease	32	–
	<u>1,323</u>	<u>1,441</u>
Loss on disposal of property, plant and equipment other than leasehold properties	14	584
Operating lease rentals paid for land and buildings	2,146	2,346
Retirement benefit scheme contributions, net of forfeited contributions of HK\$98,000 (2000: HK\$342,000)	124	(56)
Staff costs, including directors' emoluments	17,228	17,019
Dividends from listed investments in securities	(89)	(72)
Dividend from unlisted investments in securities	(1,389)	(2,315)
Loss (gain) on disposal of investments in securities	108	(1,576)
Interest income	(3,598)	(5,394)
	<u>(3,598)</u>	<u>(5,394)</u>

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for the year ended 31st March, 2001

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	13,627	14,902
– finance lease	7	–
	<u>13,634</u>	<u>14,902</u>
Less: Amount capitalised to properties under development	(13,627)	(11,830)
	<u>7</u>	<u>3,072</u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

A. Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	120	180
Other non-executive director	–	–
	<u>120</u>	<u>180</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	6,471	6,208
Retirement benefit scheme contributions	224	105
	<u>6,695</u>	<u>6,313</u>
	<u>6,815</u>	<u>6,493</u>

The directors' emoluments were within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	4	5
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>10</u>	<u>10</u>

In addition to the above, certain executive directors of the Company were granted share options of the Company during the year as set out in note 28.