

Notes to the Financial Statements

For the Year Ended 31st March, 2001

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are investment holding, hotel ownership and operation, property investment and development, securities trading and investment, and loan financing.

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 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 and associates 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 have been 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 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 subsidiary over the purchase consideration, is credited to reserves.

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.

On disposal of investments in subsidiaries and associates, the attributable amount of goodwill/premium or discount previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the 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, as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests 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.

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

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline in the value of the associate that is other than temporary. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in securities

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

All securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity 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 period.

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 their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease 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 revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement to form part of the gain or loss on disposal.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Hotel property

Hotel property is stated at its open market value based on an independent professional valuation at the balance sheet date. Any revaluation increase arising on the revaluation of the hotel property is credited to the hotel property revaluation reserve except that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of the hotel property is dealt with as an expense to the extent that it exceeds the balance on this reserve.

On disposal of hotel property, the balance on the hotel property revaluation reserve attributable to that property is transferred to retained profits.

It is the Group's practice to maintain its hotel property in a continual state of sound repair and to make improvements from time to time and accordingly the directors consider that depreciation is not necessary as the property maintains a residual value at least equal to its carrying value. Repairs and maintenance expenditure is charged to the income statement.

Other property, plant and equipment

Other property, plant and equipment are stated at cost less depreciation where appropriate. 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 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 on the disposal or retirement of an asset is determined as the difference between the sales 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.

No depreciation is provided on property under development. Hotel operating equipment included in furniture, fixtures and equipment is capitalised at historical cost and all subsequent replacements are expensed in the period in which they are incurred. Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20% - 33 ¹ / ₃ %
Motor vehicles and vessels	20%

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property under development

Property under development is stated at cost less any impairment loss. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy and other attributable expenses.

Inventories

Inventories, representing stocks of food, beverages and general stores, 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 the estimated costs necessary to make the sale.

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight line basis over their respective lease terms.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in 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 asset will crystallise in the foreseeable future.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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. 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 an expense in the period in which they are incurred.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from hotel operation and related services is recognised when the services are rendered.

Rentals receivable in respect of properties under operating leases are recognised and credited to the income statement on a straight line basis over the relevant lease term.

Sales of investments are recognised when the sale agreement becomes unconditional.

Sales of property, plant and equipment are recognised when the relevant sale contract becomes unconditional.

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

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

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.

3. TURNOVER AND CONTRIBUTION

Turnover represents the aggregate of income from hotel operation and related services, property rentals, proceeds from sale of trading securities, interest and dividend income.

The following is an analysis of the Group's turnover and contribution from ordinary activities:

By activities	Turnover		(Loss) profit before taxation	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Hotel operation and related services	36,837,421	34,772,637	5,891,282	3,200,048
Property rentals	20,915,984	19,596,543	19,752,245	19,256,023
Securities trading and investments	235,986,134	43,752,900	(7,928,106)	1,190,607
Treasury operations - interest income	5,384,969	5,575,072	5,384,969	5,575,072
Other contributions (Note (i))	—	—	3,718,231	2,541,176
	<u>299,124,508</u>	<u>103,697,152</u>	<u>26,818,621</u>	<u>31,762,926</u>
Less: Unallocated operating and administrative expenses			(20,536,405)	(21,673,903)
Finance costs			(12,303,525)	(7,057,985)
Add: Share of profits of associates			<u>1,298,976</u>	<u>1,056,852</u>
			<u>(4,722,333)</u>	<u>4,087,890</u>

Notes:

- (i) Included in other contributions are gain on disposal of property, plant and equipment of HK\$1,526,018 (2000: Nil) and fees for provision of administrative facilities to related companies of HK\$1,871,410 (2000: HK\$2,024,747).
- (ii) Substantially all the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and contribution from ordinary activities for the year were derived from Hong Kong.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

4. LOSS ON INVESTMENTS IN SECURITIES

	THE GROUP	
	2001	2000
	HK\$	HK\$
Unrealised holding loss on trading securities	19,604,380	665,877
Impairment loss on other securities	158,817	2,389,498
	<u>19,763,197</u>	<u>3,055,375</u>

5. PROFIT FROM OPERATIONS

	THE GROUP	
	2001	2000
	HK\$	HK\$
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	587,500	556,500
Depreciation of property, plant and equipment	3,990,444	5,100,018
Staff costs including directors' emoluments	24,804,866	25,662,129
Rentals payable in respect of land and buildings under operating leases	1,232,500	150,000
Repairs and maintenance	3,760,116	2,457,295
Rental income in respect of properties under operating leases, less outgoings of HK\$1,163,739 (2000: HK\$340,520)	(19,752,245)	(19,256,023)
Realised gains on trading securities	(7,819,323)	(2,274,244)
Interest from debt securities	(1,788,675)	(1,595,691)
Dividends from listed investments	(2,227,093)	(376,047)
	<u>(2,227,093)</u>	<u>(376,047)</u>

6. FINANCE COSTS

	THE GROUP	
	2001	2000
	HK\$	HK\$
Interest on:		
Bank loans and overdrafts	5,028,147	1,073,960
Other loans wholly repayable within five years	13,453,202	9,171,513
	<u>18,481,349</u>	<u>10,245,473</u>
Less: Amount capitalised on properties under development	(6,177,824)	(3,187,488)
	<u>12,303,525</u>	<u>7,057,985</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	THE GROUP	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Directors' fees	80,000	80,000
Other emoluments		
Salaries and other benefits	3,959,562	4,121,900
Contributions to provident fund scheme	12,000	–
	<u> </u>	<u> </u>
Total emoluments	4,051,562	4,201,900
	<u> </u>	<u> </u>

Note: The directors' fees of HK\$80,000 (2000: HK\$80,000) disclosed above were payable to the independent non-executive directors.

Emoluments of the directors were within the following bands:

<i>HK\$</i>	2001	2000
	Number of directors	Number of directors
Nil to 1,000,000	5	6
1,000,001 to 1,500,000	1	1
1,500,001 to 2,000,000	1	1
	<u> </u>	<u> </u>

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2000: three) were directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining two (2000: two) individuals were as follows:

	THE GROUP	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Salaries and other benefits	1,080,720	1,955,460
Contributions to provident fund scheme	4,000	–
	<u> </u>	<u> </u>
	1,084,720	1,955,460
	<u> </u>	<u> </u>

Emoluments of the employees were within the following bands:

<i>HK\$</i>	2001	2000
	Number of employees	Number of employees
Nil to 1,000,000	2	1
1,000,001 to 1,500,000	–	1
	<u> </u>	<u> </u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

8. TAXATION

	THE GROUP	
	2001	2000
	HK\$	HK\$
The (charge) credit comprises:		
Company and subsidiaries		
Hong Kong Profits Tax	(632,697)	(527,223)
Deferred taxation (<i>note 21</i>)	<u>76,000</u>	<u>844,000</u>
	<u>(556,697)</u>	<u>316,777</u>
Associates		
Hong Kong Profits Tax		
– Current year	(30,170)	(28,811)
– Overprovision in prior years	<u>152,655</u>	<u>–</u>
	<u>122,485</u>	<u>(28,811)</u>
	<u>(434,212)</u>	<u>287,966</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year.

9. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of HK\$5,156,545 (2000: net profit of HK\$4,375,856), a loss of HK\$1,217,492 (2000: profit of HK\$686,760) has been dealt with in the financial statements of the Company.

10. (LOSS) EARNINGS PER SHARE

The calculation of basic loss/earnings per share is based on the net loss for the year of HK\$5,156,545 (2000: net profit of HK\$4,375,856) and on 3,223,566,785 (2000: 3,223,566,785) ordinary shares in issue during the year.

Diluted earnings per share is not presented because the exercise price of the Company's share options referred to in note 19 (b) was higher than the average market price for the Company's shares for both years presented.

11. INVESTMENT PROPERTIES

	THE GROUP	
	2001	2000
	HK\$	HK\$
Investment properties in Hong Kong, at valuation		
At beginning of the year	473,000,000	473,000,000
Additions	38,192,826	–
Revaluation increase	<u>107,174</u>	<u>–</u>
At end of the year	<u>511,300,000</u>	<u>473,000,000</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

11. INVESTMENT PROPERTIES (Continued)

An analysis of the Group's investment properties is as follows:

	2001 HK\$	2000 HK\$
Land and buildings in Hong Kong on		
Long lease	400,000,000	400,000,000
Medium-term lease	111,300,000	73,000,000
	<u>511,300,000</u>	<u>473,000,000</u>

The investment properties of the Group were revalued at 31st March, 2001 on an open market value basis by Dudley Surveyors Limited, an independent firm of property valuers. The revaluation increase has been dealt with in the investment property revaluation reserve.

Substantially all the investment properties were rented out under operating leases at the balance sheet date.

12. PROPERTY, PLANT AND EQUIPMENT

	Hotel property HK\$	Property under development HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles and vessels HK\$	Total HK\$
THE GROUP					
COST OR VALUATION					
At 1st April, 2000	536,000,000	57,202,015	12,033,900	24,971,443	630,207,358
Additions	–	9,932,123	505,614	8,330	10,446,067
Disposals	–	–	–	(7,570,815)	(7,570,815)
	<u>536,000,000</u>	<u>67,134,138</u>	<u>12,539,514</u>	<u>17,408,958</u>	<u>633,082,610</u>
At 31st March, 2001	536,000,000	67,134,138	12,539,514	17,408,958	633,082,610
COMPRISING:					
At cost	–	67,134,138	12,539,514	17,408,958	97,082,610
At valuation	536,000,000	–	–	–	536,000,000
	<u>536,000,000</u>	<u>67,134,138</u>	<u>12,539,514</u>	<u>17,408,958</u>	<u>633,082,610</u>
DEPRECIATION					
At 1st April, 2000	–	–	9,117,019	11,706,996	20,824,015
Provided for the year	–	–	258,815	3,731,629	3,990,444
Eliminated on disposals	–	–	–	(2,084,971)	(2,084,971)
	<u>–</u>	<u>–</u>	<u>9,375,834</u>	<u>13,353,654</u>	<u>22,729,488</u>
At 31st March, 2001	–	–	9,375,834	13,353,654	22,729,488
NET BOOK VALUES					
At 31st March, 2001	<u>536,000,000</u>	<u>67,134,138</u>	<u>3,163,680</u>	<u>4,055,304</u>	<u>610,353,122</u>
At 31st March, 2000	<u>536,000,000</u>	<u>57,202,015</u>	<u>2,916,881</u>	<u>13,264,447</u>	<u>609,383,343</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's hotel property known as the Ramada Hotel Kowloon, is situated in Hong Kong on medium-term lease and is carried at its open market value, on an existing use basis, at 31st March, 2001 as valued by Dudley Surveyors Limited, an independent firm of property valuers.

Had the Group's hotel property not been revalued, it would have been included in these financial statements at the historical cost of approximately HK\$341,594,000 (2000: HK\$341,594,000).

Included in property under development, which is situated in the People's Republic of China on medium-term lease, is interest expense of HK\$93,540 (2000: Nil) capitalised at Hong Kong Inter-bank Offer Rate plus a specified margin.

	Furniture, fixtures and equipment HK\$	Motor vehicles and vessels HK\$	Total HK\$
THE COMPANY			
COST			
At 1st April, 2000	46,173	2,725,093	2,771,266
Additions	15,245	8,330	23,575
Disposals	–	(420,560)	(420,560)
	<u>61,418</u>	<u>2,312,863</u>	<u>2,374,281</u>
At 31st March, 2001	61,418	2,312,863	2,374,281
DEPRECIATION			
At 1st April, 2000	16,128	2,264,187	2,280,315
Provided for the year	11,502	461,046	472,548
Eliminated on disposals	–	(420,560)	(420,560)
	<u>27,630</u>	<u>2,304,673</u>	<u>2,332,303</u>
At 31st March, 2001	27,630	2,304,673	2,332,303
NET BOOK VALUES			
At 31st March, 2001	<u>33,788</u>	<u>8,190</u>	<u>41,978</u>
At 31st March, 2000	<u>30,045</u>	<u>460,906</u>	<u>490,951</u>

13. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2001 HK\$	2000 HK\$
Property under development, at cost		
At beginning of the year	87,701,214	20,103,143
Additions	<u>8,195,727</u>	<u>67,598,071</u>
At end of the year	<u>95,896,941</u>	<u>87,701,214</u>

Included in property under development, which is situated in Hong Kong on medium-term lease, is interest expense of HK\$9,271,772 (2000: HK\$3,187,488) capitalised at Hong Kong Inter-bank Offer Rate plus a specified margin.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$	HK\$
Unlisted shares, at cost less provisions	115,020,872	115,020,872
Amounts due from subsidiaries less provisions	845,717,367	834,611,488
	<u>960,738,239</u>	<u>949,632,360</u>

The amounts due from subsidiaries are unsecured with no fixed repayment terms. In the opinion of the directors, repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as non-current assets.

Particulars regarding the subsidiaries at 31st March, 2001 are set out in note 30.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001	2000
	HK\$	HK\$
Share of net assets	3,439,425	3,117,964
Amount due from an associate	91,560,735	90,060,735
	<u>95,000,160</u>	<u>93,178,699</u>

	THE COMPANY	
	2001	2000
	HK\$	HK\$
Unlisted share, at cost	<u>1</u>	<u>1</u>

The amount due from an associate is unsecured with no fixed repayment terms. Such amount to the extent of HK\$60,000,000 (2000: HK\$60,000,000) carries interest at 8.5% per annum and the remaining balance is interest free. Repayment of the amount will not be demanded within one year from the balance sheet date. Accordingly, the amount is classified as a non-current asset.

Particulars regarding the associates at 31st March, 2001 are set out in note 31.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

15. INTERESTS IN ASSOCIATES (Continued)

The following financial information has been prepared from the financial statements of a significant associate, Lucky Country Development Limited.

Operating results:

	Year ended 31st March	
	2001 HK\$'000	2000 HK\$'000
Turnover	<u>15,563</u>	<u>16,024</u>
Profit from ordinary activities before taxation	<u>2,605</u>	<u>2,121</u>
Profit from ordinary activities before taxation attributable to the Group	<u>1,303</u>	<u>1,061</u>

Financial position:

	At 31st March	
	2001 HK\$'000	2000 HK\$'000
Non-current asset		
Investment property	185,000	185,000
Current assets	1,718	390
Current liabilities	(90)	(382)
Non-current liabilities		
Amounts due to shareholders	<u>(179,981)</u>	<u>(179,012)</u>
Net assets	<u>6,647</u>	<u>5,996</u>
Net assets attributable to the Group	<u>3,324</u>	<u>2,998</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

16. INVESTMENTS IN SECURITIES

	Trading securities (current)		Other securities (non-current)	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
THE GROUP				
Listed securities at market value				
Equity securities listed:				
In Hong Kong	95,915,484	62,935,716	42,837,686	73,910,927
Outside Hong Kong	–	–	1,677,000	1,054,503
Debt securities listed:				
Outside Hong Kong	19,239,300	18,757,678	–	–
In Hong Kong	–	4,095,169	–	–
Unlisted investments	–	–	780,000	780,001
	<u>115,154,784</u>	<u>85,788,563</u>	<u>45,294,686</u>	<u>75,745,431</u>
			Other securities (non-current)	
			2001	2000
			HK\$	HK\$

THE COMPANY

Unlisted investments	<u>780,000</u>	<u>780,000</u>
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The Group's non-current equity securities listed in Hong Kong include approximately 15.29% (2000: 13.92%) equity interests in Shun Ho Technology Holdings Limited ("Shun Ho Technology", formerly known as Shun Ho Construction (Holdings) Limited) and approximately 20.57% (2000: 20.57%) equity interests in Shun Ho Resources Holdings Limited ("Shun Ho Resources"), both are public companies incorporated and listed in Hong Kong and have beneficial interests, directly or indirectly, in the issued share capital of the Company. The principal activities of Shun Ho Technology and its subsidiaries are investment holding, property investment, development of internet portal sites, provision of management services and treasury operations, and those of Shun Ho Resources are investment holding and treasury operations.

Due to the existence of a controlling shareholder, the directors are of the opinion that the Group is not in a position to exercise significant influence over Shun Ho Resources. Accordingly, the results of Shun Ho Resources have not been accounted for on an equity basis.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

17. TRADE AND OTHER RECEIVABLES

Except for an average credit period of 30 to 60 days granted to travel agencies and certain customers of the hotel, the Group does not allow any credit period to its other customers.

The following is an ageing analysis of trade and other receivables at the balance sheet date:

	THE GROUP	
	2001 HK\$	2000 HK\$
0 – 30 days	2,123,063	2,315,764
31 – 60 days	526,583	913,469
Over 60 days	661,278	873,143
	<u>3,310,924</u>	<u>4,102,376</u>

18. TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade and other payables at the balance sheet date:

	THE GROUP	
	2001 HK\$	2000 HK\$
0 – 30 days	2,263,564	2,386,086
31 – 60 days	230,880	266,817
Over 60 days	2,272,972	2,227,504
	<u>4,767,416</u>	<u>4,880,407</u>

19. SHARE CAPITAL

	Number of ordinary shares of		Nominal value HK\$
	HK\$0.2 each	HK\$0.01 each	
THE GROUP AND THE COMPANY			
Authorised:			
At 1st April, 1999	4,000,000,000	–	800,000,000
Reduction of par value	<u>(4,000,000,000)</u>	<u>80,000,000,000</u>	–
At 31st March, 2000 and 2001	<u>–</u>	<u>80,000,000,000</u>	<u>800,000,000</u>
Issued and fully paid:			
At 1st April, 1999	3,223,566,785	–	644,713,357
Reduction of par value	<u>(3,223,566,785)</u>	<u>3,223,566,785</u>	<u>(612,477,689)</u>
At 31st March, 2000 and 2001	<u>–</u>	<u>3,223,566,785</u>	<u>32,235,668</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

19. SHARE CAPITAL (Continued)

Notes:

(a) Ordinary shares

Pursuant to a special resolution passed at the extraordinary general meeting held on 15th July, 1999, the nominal value of all the issued and unissued shares in the Company was reduced by HK\$0.19 from HK\$0.2 to HK\$0.01 with effect from 22nd September, 1999, and the authorised share capital of the Company was increased to restore the original amount of HK\$800,000,000 by the creation of an additional 76,000,000,000 ordinary shares of HK\$0.01 each in the Company. A credit arising from the reduction of the par value of the shares in issue amounted to HK\$612,477,689 has been transferred to the special capital reserve.

(b) Share option scheme

Under the terms of the Company's Share Option Scheme which became effective on 27th September, 1990, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, at any time up to 27th September, 2000, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

Other than the share options to subscribe for 12,000,000 ordinary shares in the Company previously granted which had lapsed during the year, no options were granted, exercised or lapsed during the two years ended 31st March, 2001. The options outstanding at 31st March, 2001 comprised options to subscribe for 43,799,524 ordinary shares at the subscription price of HK\$0.2 per share exercisable on or before 29th June, 2004.

20. RESERVES

	Share premium HK\$	Special capital reserve HK\$	Hotel property revaluation reserve HK\$	Investment property revaluation reserve HK\$	Securities revaluation reserve HK\$	Goodwill on consolidation HK\$	Retained profits HK\$	Total HK\$
THE GROUP								
At 1st April, 1999	114,368,951	–	196,789,260	2,451,064	(38,827,470)	(922,952)	221,791,571	495,650,424
Created on reduction of share capital (note 19)	–	612,477,689	–	–	–	–	–	612,477,689
(Decrease) increase on revaluations:								
– property	–	–	(2,383,352)	–	–	–	–	(2,383,352)
– other securities	–	–	–	–	30,969,857	–	–	30,969,857
Net profit for the year	–	–	–	–	–	–	4,375,856	4,375,856
At 31st March, 2000	114,368,951	612,477,689	194,405,908	2,451,064	(7,857,613)	(922,952)	226,167,427	1,141,090,474
Increase (decrease) on revaluations:								
– property	–	–	–	107,174	–	–	–	107,174
– other securities	–	–	–	–	(32,859,910)	–	–	(32,859,910)
Net loss for the year	–	–	–	–	–	–	(5,156,545)	(5,156,545)
At 31st March, 2001	114,368,951	612,477,689	194,405,908	2,558,238	(40,717,523)	(922,952)	221,010,882	1,103,181,193

Included in reserves of the Group are the Group's share of investment property revaluation reserve and retained profits of associates amounted to HK\$2,128,054 (2000: HK\$2,128,054) and HK\$1,413,795 (2000: HK\$1,092,334) respectively.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

20. RESERVES (Continued)

	Share premium HK\$	Special capital reserve HK\$	Retained profits HK\$	Total HK\$
THE COMPANY				
At 1st April, 1999	114,368,951	–	62,040,969	176,409,920
Created on reduction of share capital (note 19)	–	612,477,689	–	612,477,689
Net profit for the year	–	–	686,760	686,760
	<u>114,368,951</u>	<u>612,477,689</u>	<u>62,727,729</u>	<u>789,574,369</u>
At 31st March, 2000	114,368,951	612,477,689	62,727,729	789,574,369
Net loss for the year	–	–	(1,217,492)	(1,217,492)
	<u>114,368,951</u>	<u>612,477,689</u>	<u>61,510,237</u>	<u>788,356,877</u>
At 31st March, 2001	<u>114,368,951</u>	<u>612,477,689</u>	<u>61,510,237</u>	<u>788,356,877</u>

When sanctioning the reduction in nominal value of the Company's shares, as more fully described in note 19(a), the High Court of the Hong Kong Special Administrative Region stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve, which may be reduced by any increase in the issued share capital and share premium of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves, is not regarded as realised profit and distributable until all of the liabilities of the Company as at 22nd September, 1999, the date on which the reduction of share capital took effect, are settled. The liabilities of the Company at 22nd September, 1999 have not yet been fully settled at 31st March, 2001, accordingly the special capital reserve was not distributable at that date.

The Company's reserves available for distribution to shareholders as at 31st March, 2001 comprised the retained profits of HK\$61,510,237 (2000: HK\$62,727,729).

21. DEFERRED TAXATION

The deferred taxation of the Group at the balance sheet date was attributable to timing differences arising from excess of tax allowances over depreciation charges.

	THE GROUP	
	2001	2000
	HK\$	HK\$
Movements during the year are as follows:		
Balance at beginning of the year	76,000	920,000
Credit for the year	(76,000)	(844,000)
	<u>–</u>	<u>76,000</u>
Balance at end of the year	<u>–</u>	<u>76,000</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

21. DEFERRED TAXATION (Continued)

At the balance sheet date, the major components of unprovided deferred tax assets (liabilities) were as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Tax effect of timing differences because of:		
Differences between tax allowances and depreciation charges	(2,604,349)	(1,081,432)
Unutilised tax losses	<u>3,329,278</u>	<u>1,339,992</u>
	<u><u>724,929</u></u>	<u><u>258,560</u></u>

The unprovided deferred taxation has not been recognised in the financial statements as it is not expected that the potential deferred tax asset will crystallise in the foreseeable future.

The amount of the unprovided deferred tax credit (charge) for the year is as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Tax effect of timing differences because of:		
Differences between tax allowances and depreciation charges	(1,522,917)	253,837
Tax losses arising	<u>1,989,286</u>	<u>787,252</u>
	<u><u>466,369</u></u>	<u><u>1,041,089</u></u>

Deferred tax has not been provided on the increases or decreases arising on the revaluation of properties and other securities as profits or losses arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation increases or decreases do not constitute a timing difference for tax purposes.

22. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured and interest free with no fixed repayment terms. Repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as non-current liabilities.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

23. RECONCILIATION OF (LOSS) PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$	2000 HK\$
(Loss) profit from ordinary activities before taxation	(4,722,333)	4,087,890
Share of profits of associates	(1,298,976)	(1,056,852)
Unrealised holding loss on trading securities	19,604,380	665,877
Impairment loss on other securities	158,817	2,389,498
Interest expenses	12,303,525	7,057,985
Depreciation of property, plant and equipment	3,990,444	5,100,018
Gain on disposal of property, plant and equipment	(1,526,018)	–
Movements in assets/liabilities held for operating activities:		
(Increase) decrease in inventories	(69,908)	76,179
Decrease in trade and other receivables, deposits and prepayments	997,837	9,859,159
Decrease (increase) in trade balances due from shareholders	7,798,634	(1,322,731)
Increase in investments in trading securities	(48,970,601)	(65,077,232)
(Decrease) increase in trade and other payables and rental and other deposits received	(180,813)	401,989
Decrease in trade balance due to an associate	(11,450)	(7,750)
	<u>(11,926,462)</u>	<u>(37,825,970)</u>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<u>(11,926,462)</u>	<u>(37,825,970)</u>

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Special capital reserve HK\$	Bank loans HK\$	Advance from a related party HK\$	Advance from a shareholder HK\$
At 1st April, 1999	759,082,308	–	10,059,500	20,334,498	86,171,277
Net cash inflow from financing	–	–	31,500,000	1,157,220	84,977,822
Non-cash transaction:					
Reduction of par value of shares in issue	(612,477,689)	612,477,689	–	–	–
At 31st March, 2000	146,604,619	612,477,689	41,559,500	21,491,718	171,149,099
Net cash (outflow) inflow from financing	–	–	(23,952,830)	1,171,179	12,255,821
At 31st March, 2001	<u>146,604,619</u>	<u>612,477,689</u>	<u>17,606,670</u>	<u>22,662,897</u>	<u>183,404,920</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

25. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding commitments in respect of property development expenditure as follows:

	THE GROUP	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Contracted but not provided for in the financial statements	<u><u>21,641,000</u></u>	<u><u>26,186,000</u></u>
Authorised but not contracted for	<u><u>1,916,000</u></u>	<u><u>340,000</u></u>

The Company had no material capital commitments at the balance sheet date.

26. LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises which expire in the second to fifth years inclusive of HK\$210,000 (2000: Nil).

27. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At the balance sheet date, the bank loan facilities of subsidiaries, which were utilised to the extent of approximately HK\$134 million (2000: HK\$69 million), were secured by the following:

- (a) guarantees issued by the Company amounted to approximately HK\$120 million (2000: HK\$120 million);
- (b) properties of the Group together with related assets with an aggregate carrying net book value of approximately HK\$540 million (2000: HK\$540 million);
- (c) pledge of shares in and subordination of loans due from subsidiaries with an aggregate carrying amount of approximately HK\$191 million (2000: HK\$239 million);
- (d) assignment of the rentals and hotel revenue of a subsidiary; and
- (e) pledge of listed securities and bank deposits with an aggregate carrying value of approximately HK\$147 million (2000: HK\$130 million) and HK\$4.8 million (2000: Nil) respectively held by subsidiaries.

28. LONG SERVICE PAYMENTS

At 31st March, 2001, certain employees of the Group had completed the required number of years of service under Hong Kong's Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31st March, 2001 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$2,275,000 (2000: HK\$2,181,000). No provision has been made in the financial statements in respect of such long service payments.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

29. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties:–

- (a) The property owned by a subsidiary of the Company's substantial shareholder, Shun Ho Technology, was leased to the Group at the agreed rental of HK\$90,000 per month. Net rentals paid by the Group for the year amounted to HK\$1,040,000 (2000: HK\$1,040,000).
- (b) During the year, Shun Ho Technology made unsecured short-term advances to the Group which carried interest at Hong Kong Inter-bank Offer Rate ("HIBOR") plus a specified margin and are repayable on demand. Interest payable by the Group on such advances amounted to HK\$12,204,051 (2000: HK\$7,670,413) in respect of the year. At the balance sheet date, advances from Shun Ho Technology amounted to HK\$183,073,150 (2000: HK\$171,149,099) remained outstanding.

In addition, Shun Ho Technology also made unsecured interest free advances to the Group which were repayable on demand. At the balance sheet date, such advances amounted to HK\$331,770 (2000: Nil) remained outstanding.

- (c) During the year, Mr. William Cheng Kai Man, a director of the Company, made unsecured short-term advances to the Group which carried interest chargeable at bank fixed deposit rates and were repayable on demand. Interest payable by the Group on such advances amounted to HK\$1,248,118 (2000: HK\$1,154,470) in respect of the year. At the balance sheet date, advances from Mr. Cheng amounted to HK\$22,662,897 (2000: HK\$21,491,718) remained outstanding.
- (d) The trade balance due by the shareholders, Shun Ho Technology and Shun Ho Resources, to the Group at the balance sheet date was HK\$22,500 (2000: HK\$7,821,134) which were unsecured, interest free and repayable on demand.
- (e) During the year, a subsidiary of the Company, Claymont Services Limited ("Claymont"), made unsecured advances to its associate, Lucky Country Development Limited, with no fixed repayment terms. Such advances to the extent of HK\$60,000,000 (2000: HK\$60,000,000) carried interest chargeable at 8.5% per annum and the remaining balance was interest free. Interest receivable by Claymont on such advances amounted to HK\$5,100,000 (2000: HK\$5,525,000) in respect of the year. At the balance sheet date, advances due from the associate amounted to HK\$91,560,735 (2000: HK\$90,060,735) remained outstanding.
- (f) During the year, the Group provided certain administrative facilities to Shun Ho Technology and Shun Ho Resources, for which fees of HK\$1,721,410 (2000: HK\$1,874,747) and HK\$150,000 (2000: HK\$150,000), calculated on a cost reimbursement basis, were respectively charged.

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

30. PARTICULARS OF SUBSIDIARIES

All the subsidiaries are incorporated and operating principally in Hong Kong except otherwise indicated. None of the subsidiaries had any loan capital outstanding at 31st March, 2001 or at any time during the year.

Name of subsidiary	Paid up issued/ registered ordinary share capital		Proportion of nominal value of capital held by the Company		Principal activities
	Number of shares	Par value	Directly	Indirectly	
			%	%	
Ascot Apartment Hotel Limited	10,000	HK\$1	100	–	Inactive
Ascot House Limited	1,000,000	HK\$1	–	100	Inactive
Ascot Lodge Limited	2	HK\$1	–	100	Inactive
Ascot Villas Limited	4,000,000	HK\$1	–	100	Inactive
Babenna Limited	2	HK\$10	100	–	Investment holding
Brunker Trading Limited (i)	1	US\$1	–	100	Investment holding
Claymont Services Limited (i)	1	US\$1	100	–	Investment holding
Gainwell Holdings Limited	2	HK\$1	–	100	Property investment
Harbour Rich Industrial Limited	10,000	HK\$1	–	100	Property development
Hotel Royale International Limited	2	HK\$1	100	–	Property investment
Houston Venture Limited (i)	1	US\$1	100	–	Investment holding
Joes River Limited	2	HK\$1	100	–	Property investment
Joligance Limited	2	HK\$1	100	–	Investment holding
Longham Investment Limited (i)	1	US\$1	–	100	Investment holding
Lynista Services Limited (i)	1	US\$1	–	100	Inactive
Mercury Fast Limited	2	HK\$1	100	–	Securities trading and investment holding
Mulbinga Limited (i)	1	US\$1	–	100	Investment holding
New Champion Developments Limited (i)	1	US\$1	–	100	Vessel holding
On Sea Limited	2	HK\$1	100	–	Investment holding
Perfect View Investment Limited	2	HK\$1	–	100	Inactive
Shanghai Shun Ho (Lands Development) Limited (i)	1	US\$1	100	–	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. (ii)	Registered capital	US\$4,950,000	–	100	Property development
Shun Ho Building Limited	2	HK\$1	100	–	Inactive
Shun Ho Capital Properties Limited (i)	1	US\$1	100	–	Investment holding
Shun Ho Construction (Holdings) Limited (formerly Arboga Limited)	2	HK\$10	100	–	Inactive
Silver Courage Company Limited	2	HK\$10	100	–	Property investment
Sungalia Enterprises Limited (i)	1	US\$1	–	100	Investment holding
Trans-Profit Limited	1,000,000	HK\$1	–	100	Property investment
United Assets Company Limited	2,000,000	HK\$1	–	100	Hotel ownership and investment holding
Wah Leung Finance Limited	2,500,000	HK\$1	100	–	Investment holding

(i) Incorporated in the British Virgin Islands

(ii) Wholly foreign owned enterprise established and operating principally in the People's Republic of China

Notes to the Financial Statements (Continued)

For the Year Ended 31st March, 2001

31. PARTICULARS OF ASSOCIATES

All the associates are incorporated and operating in Hong Kong.

Name of company	Proportion of nominal value of issued ordinary capital held by the Group		Principal activities
	Directly %	Indirectly %	
Lucky Country Development Limited	–	50	Property investment
Shun Ho Real Estate Limited	50	–	Provision of hospitality services

32. POST BALANCE SHEET EVENT

Subsequent to 31st March, 2001, the Group issued approximately 1,611,783,400 units of 5% mandatory convertible bonds with warrants at an aggregate subscription price of approximately HK\$96,707,000.