

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Everbest Holdings Group Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the repairs and maintenance of civil engineering establishment and buildings under construction contracts in Hong Kong, property development and the provision of medical and health services in the PRC, and investment holding.

## 2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted Statement of Standard Accounting Practice ("SSAP") 14 (Revised) "Leases" issued by the Hong Kong Society of Accountants. Adoption of this standard has resulted in some modifications to the presentation of financial statements. Comparative amounts have been restated in order to achieve a consistent presentation. However, none of this amendment has affected the results for the current or prior periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

All significant intercompany transactions and balances between group enterprises have been eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the 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 previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

### 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.

### Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence through participation in financial and operating policy decisions of the investee.

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 and 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Associates – continued

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 the Company on the basis of dividends received and receivable during the year.

### Finance leases and hire purchase contracts

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the dates of acquisition. The principal portion of the corresponding leasing commitments is shown as an obligation of the Group. Finance costs, which represent the difference between the total leasing commitments and the original principal amounts at the inception of the finance leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight line basis over the relevant lease terms.

Assets held under hire purchase contracts are accounted for on the same basis as leased assets.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Investment properties – continued

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

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

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to 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.

Properties in the course of construction are carried at cost. Cost includes professional fees and borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Property, plant and equipment – continued

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment when they are put to effective use, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired remaining term of the lease
Buildings	Over the shorter of the term of the lease, or 20 years
Furniture, fixtures and equipment	10-20%
Motor vehicles	20-33 $\frac{1}{3}$ %
Plant and machinery	10%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group, or where shorter, the term of the relevant lease.

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

### Golf resort under construction

The golf resort under construction is stated at cost. Cost includes acquisition cost, construction cost and borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation on the golf resort under construction will be provided when it is ready for its intended use.

### Properties under development

Properties under development for rent are stated at cost less provision, if necessary, for permanent diminution in value.

Properties under development for sale, in respect of which no pre-sales have been made, are stated at lower of cost and net realisable value.

Properties under development for sale, in respect of which pre-sales have been made prior to completion, comprise land cost, construction costs, net interest and other finance charges incurred to date, net of costs transferred to cost of sales matched with revenue recognised to date, less provision for foreseeable losses and deposits received, if any.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Properties under development – continued

Revenue from pre-sales of properties under development is recognised based on the construction costs of a development project incurred up to the end of a financial period as a proportion of the estimated total construction costs. Income recognised is limited to the amount of pre-sale deposits received and receivable. In any case, income is only recognised when it is reasonably certain. Where purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sale deposits received in advance of completion are forfeited. The excess of the sales deposits forfeited over the profits recognised up to the date of forfeiture is credited to the income statement.

### Completed properties for sale

Completed properties remaining unsold at the year end are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to the unsold properties. Net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by directors' estimates based on prevailing market conditions.

### Website development costs

The costs incurred in acquiring website database, website application and infrastructure are capitalised and amortised over a period of three years. Other website development costs are charged to the income statement in the period in which they are incurred. Where the recoverable amount of website development costs has declined below their carrying amount, the carrying amount is reduced to reflect the decline in value.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Impairment – continued

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

### 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.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total contract costs.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Construction contracts – continued

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

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

### Revenue recognition

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction 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 customers. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Revenue from the sale of completed properties is recognised upon the execution of a binding sale and purchase agreement.

Income from properties pre-sold prior to completion of development is recognised over the period from the execution of a binding sales agreement to the completion of development on the basis of development costs to date as a proportion of estimated total development costs subject to the limit that income recognised at any time does not exceed the amount of deposits already received.

Medical and examination fee income is recognised when services are provided.

Interest income from advances to subcontractors and bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, except for doubtful advances on which no interest income is accrued.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded 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. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of operations outside Hong Kong 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, if any, 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 the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advances.

## 4. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the amounts received and receivable from repairs and maintenance of civil engineering establishments and buildings under construction contracts, medical and health service fees earned during the year and proceeds from sale of properties, net of business tax, adjusted to reflect the percentage of completion of construction to the extent these were not previously recognised.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 4. TURNOVER AND SEGMENTAL INFORMATION – continued

In prior years, the Group's repairs and maintenance of civil engineering establishments and buildings under construction contracts were contracted to subcontractors. Since early 2000, in addition to subcontracting, the Group has also employed its own workers to provide the repairs and maintenance works and medical and health services. These workers' wages and other associated costs in 2000 amounted to HK\$43,868,000. This amount has been reclassified from administrative and other operating expenses to cost of sales in 2000 in order to conform with the current year's presentation.

The Group's turnover and contribution to (loss) profit before taxation analysed by principal activity and geographical market are as follows:

	Turnover		Contribution to (loss) profit before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Repairs and maintenance of civil engineering establishments and buildings under construction contracts in Hong Kong	<b>280,405</b>	283,830	<b>(14,101)</b>	(5,412)
Sales of properties in the People's Republic of China ("PRC")	<b>17,626</b>	14,682	<b>2,427</b>	(13)
Provision of medical and health services in the PRC	<b>17,673</b>	13,339	<b>3,766</b>	2,473
	<b><u>315,704</u></b>	<b><u>311,851</u></b>	<b><u>(7,908)</u></b>	<b><u>(2,952)</u></b>
Other income			<b>4,032</b>	3,380
Gain realised on expiry of warrants			<b>16,859</b>	–
Administrative and other operating expenses			<b>(52,566)</b>	(51,994)
Deficit arising from revaluation of investment properties			<b>(52,593)</b>	–
Impairment loss for properties under development and completed properties for sale			<b>(1,620)</b>	(109,040)
Share of results of associates			<b>(28,140)</b>	(14,068)
Net interest expenses			<b>(5,195)</b>	(4,275)
Gain on disposal of GreaterChina			–	227,854
Net gain on disposal of an associate			–	179,520
(Loss) profit before taxation			<b><u>(127,131)</u></b>	<b><u>228,425</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 5. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Interest income	22,376	18,490
Less: Amounts capitalised	—	(2,793)
	<u>22,376</u>	<u>15,697</u>
Net foreign exchange gains	58	420
Sundry income	3,974	2,960
	<u>3,974</u>	<u>2,960</u>
	<u><u>26,408</u></u>	<u><u>19,077</u></u>

## 6. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Finance charges in respect of finance leases and hire purchase contracts	458	337
Interest on bank borrowings wholly repayable within five years	25,410	25,138
Interest on bank borrowings with instalments repayable after five years	1,703	1,142
	<u>27,571</u>	<u>26,617</u>
Less: Interest capitalised in properties under development	—	(6,285)
Interest capitalised in golf resort under construction	—	(360)
	<u>—</u>	<u>(6,645)</u>
	<u><u>27,571</u></u>	<u><u>19,972</u></u>

During the year ended 31st July, 2000, the borrowing costs capitalised arose on the general borrowing pool and were calculated by applying a capitalisation rate of 10% to expenditure on qualifying assets. No borrowing costs were capitalised during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 7. GAIN ON DISPOSAL OF GREATERCHINA

	2001 HK\$'000	2000 HK\$'000
Gain on deemed disposal arising from capital injection in GreaterChina by strategic investors and management	–	59,098
Gain arising on distribution of shares in GreaterChina by the Company (note 36)	–	97,443
Gain on deemed disposal arising from placing of shares by GreaterChina	–	71,313
	<u>–</u>	<u>227,854</u>

## 8. (LOSS) PROFIT BEFORE TAXATION

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Auditors' remuneration	891	714
Depreciation and amortisation on:		
Owned assets	7,125	6,579
Assets held under finance leases and hire purchase contracts	3,165	3,772
	10,290	10,351
Loss on disposal of property, plant and equipment	–	38
Operating lease rentals paid in respect of land and buildings	206	756
Provision for bad and doubtful debts	1,718	19,437
Staff costs, including directors' remuneration:		
Retirement benefits scheme contributions	1,500	–
Salaries and other benefits	65,903	48,605
	<u>67,403</u>	<u>48,605</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 9. DIRECTORS' REMUNERATION

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Directors' fees:		
Executive directors	–	–
Independent non-executive directors	<b>332</b>	211
	<u>332</u>	<u>211</u>
Other emoluments to executive directors:		
Salaries and other benefits	<b>6,923</b>	6,960
Retirement benefits scheme contributions	<b>24</b>	–
	<u>6,947</u>	<u>6,960</u>
Total remuneration	<b><u>7,279</u></b>	<b><u>7,171</u></b>

Emoluments of the directors were within the following bands:

	<b>Number of director(s)</b>	
	<b>2001</b>	2000
Nil – HK\$1,000,000	<b>5</b>	5
HK\$1,500,001 – HK\$2,000,000	<b>1</b>	1
HK\$2,000,001 – HK\$2,500,000	<b>1</b>	1
HK\$2,500,001 – HK\$3,000,000	<b>1</b>	–
HK\$3,000,001 – HK\$3,500,000	<b>–</b>	1
	<u>–</u>	<u>1</u>

No directors of the Company waived any emoluments during the year and in last year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 10. 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 disclosures in note 9 above. The emoluments of the remaining two (2000: two) individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	2,186	1,914
Retirement benefits scheme contributions	<u>16</u>	<u>–</u>

Their emoluments were within the following bands:

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

## 11. TAXATION CREDIT (CHARGE)

	2001 HK\$'000	2000 HK\$'000
The credit (charge) comprises:		
Profit for the year		
Hong Kong	–	(35,049)
Other regions in the PRC	<u>(137)</u>	<u>(1)</u>
	<u>(137)</u>	<u>(35,050)</u>
Overprovision of profits tax in prior years		
Hong Kong	–	280
Other regions in the PRC	<u>2,523</u>	<u>1,402</u>
	<u>2,523</u>	<u>1,682</u>
Deferred taxation ( <i>note 33</i> )	<u>8,955</u>	<u>20,544</u>
	<u>11,341</u>	<u>(12,824)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 11. TAXATION CREDIT (CHARGE) – continued

No provision for Hong Kong Profits Tax has been made in the financial statements in the current year as the Group incurred tax losses for the year.

Hong Kong Profits Tax in last year was calculated at 16% of the estimated assessable profit for that year.

Taxation arising in other regions in the PRC is calculated at the rates prevailing in the respective regions.

## 12. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of HK\$116,592,000 (2000: a profit of HK\$216,320,000), a loss of HK\$39,010,000 (2000: a profit of HK\$150,377,000) has been dealt with in the financial statements of the Company.

## 13. DISTRIBUTIONS

	2001	2000
	HK\$'000	HK\$'000
Distribution of a 15.86 per cent. interest in GreaterChina by way of distribution in specie	–	108,482
Interim dividend paid:		
Nil (2000: 1 cent) per share	–	20,721
Final dividend proposed:		
Nil (2000: 1 cent) per share	–	20,724
	<u>–</u>	<u>149,927</u>
	<u>–</u>	<u>149,927</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 14. (LOSS) EARNINGS PER SHARE

### (Loss) earnings

	2001	2000
	HK\$'000	HK\$'000
(Loss) earnings for the purposes of basic and diluted earnings per share	<u>(116,592)</u>	<u>216,320</u>

### Number of shares

	2001	2000
Weighted average number of shares for the purposes of basic (loss) earnings per share	<u>2,107,452,223</u>	1,796,325,382
Effect of dilutive potential shares:		
Share options		3,712,412
Warrants		<u>45,103,776</u>
Weighted average number of shares for the purposes of diluted earnings per share		<u>1,845,141,570</u>

No diluted loss per share for the current year has been presented because the effect of exercising an option or a warrant to subscribe for an additional share of the Company is anti-dilutive.

## 15. INVESTMENT PROPERTIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Transfer from properties under development	233,792	–
Revaluation deficit	<u>(52,593)</u>	–
At end of the year	<u>181,199</u>	<u>–</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 15. INVESTMENT PROPERTIES - continued

Investment properties were revalued at their open market value at 31st July, 2001 by Chesterton Petty Limited, an independent valuer, on an open market value basis. This valuation gave rise to a revaluation decrease of HK\$52,593,000 which has been charged to the income statement.

The Group's investment properties with an aggregate carrying value of approximately HK\$32,623,000 have been pledged to secure banking facilities granted to the Group.

The investment properties are situated in the PRC under long leases.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Properties under construction	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>						
COST						
At 1st August, 2000	65,619	556	15,831	15,833	5,055	102,894
Additions	70	-	1,904	513	395	2,882
Disposals	-	-	(40)	(231)	-	(271)
At 31st July, 2001	65,689	556	17,695	16,115	5,450	105,505
DEPRECIATION AND AMORTISATION						
At 1st August, 2000	6,953	-	9,088	11,005	2,047	29,093
Provided for the year	2,486	-	3,236	3,600	968	10,290
Eliminated on disposals	-	-	(40)	(220)	-	(260)
At 31st July, 2001	9,439	-	12,284	14,385	3,015	39,123
NET BOOK VALUES						
At 31st July, 2001	56,250	556	5,411	1,730	2,435	66,382
At 31st July, 2000	58,666	556	6,743	4,828	3,008	73,801

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 16. PROPERTY, PLANT AND EQUIPMENT – continued

The net book value of properties shown above comprises:

	2001 HK\$'000	2000 HK\$'000
Land in Hong Kong:		
Long leases	41,396	42,646
Land outside Hong Kong:		
Medium-term leases	<u>15,410</u>	<u>16,576</u>
	<u><b>56,806</b></u>	<u><b>59,222</b></u>

At 31st July, 2001, the net book value of motor vehicles included an amount of approximately HK\$1,253,000 (2000: HK\$4,418,000) in respect of assets held under finance leases and hire purchase contracts.

## 17. GOLF RESORT UNDER CONSTRUCTION

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Cost		
At beginning of the year	84,023	–
Acquired on acquisition of a subsidiary	–	83,050
Additions	30,000	973
Transfer from prepayment for golf resort under construction	<u>36,000</u>	<u>–</u>
	<b>150,023</b>	84,023
Prepayment for golf resort under construction	<u>20,950</u>	<u>56,950</u>
	<u><b>170,973</b></u>	<u><b>140,973</b></u>

The golf resort under construction is situated in the PRC under a long lease.

Up to 31st July, 2001, interest expense of HK\$360,000 (2000: HK\$360,000) was capitalised in golf resort under construction.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 17. GOLF RESORT UNDER CONSTRUCTION – continued

Pursuant to the agreement dated 10th December, 1999 entered into between the Group and Ms. Yeung Pak Wa and Mr. Yip Siu Sang, the former owners of Tammerworth Development Limited (“Tammerworth”), Ms. Yeung Pak Wa and Mr. Yip Siu Sang are responsible for all costs and expenses to be incurred in the construction of the golf resort. Pursuant to the valuation report issued by Chesterton Petty Limited dated 14th February, 2000, the estimated costs to complete the golf resort amounted to approximately HK\$56,950,000. Pursuant to the supplemental agreement date 18th January, 2000 entered into between the Group and Ms. Yeung Pak Wa and Mr. Yip Siu Sang, 120,000,000 shares of China Rich Holdings Limited were kept by the nominee of the Group as a security for discharging the costs and expenses of the construction of the golf resort.

At 31st July, 2000, the amount of HK\$56,950,000 was classified as prepayment for golf resort under construction. During the year, an amount of HK\$36,000,000 was transferred to the cost of golf resort under construction.

## 18. PROPERTIES UNDER DEVELOPMENT

### THE GROUP

During the year ended 31st July, 2001, a total amount of HK\$233,792,000 (2000: nil) was transferred from properties under development to investment properties.

Properties under development are situated in the PRC and are held under long leases.

Up to 31st July, 2001, properties under development included net interest capitalised of approximately HK\$3,968,000 (2000: HK\$22,320,000).

## 19. WEBSITE DEVELOPMENT COSTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Additions during the year	–	8,551
Eliminated on disposal of GreaterChina	–	(8,551)
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at carrying value	<b>178,506</b>	178,506
Unlisted shares, at cost	<b>140,000</b>	140,000
Amounts due from subsidiaries	<b>516,871</b>	552,695
	<b>835,377</b>	871,201
Less: Provision	<b>(287,183)</b>	(238,183)
	<b>548,194</b>	633,018

The carrying value of the Company's investment in the subsidiaries is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the group reorganisation in 1994, less provision made as considered to be necessary by the directors.

Details of the Company's subsidiaries as at 31st July, 2001 are set out in note 45.

None of the subsidiaries had any loan capital outstanding at the balance sheet date or at any time during the year.

The amounts due from subsidiaries are unsecured, non-interest bearing and in the opinion of the directors, the amounts will not be repaid within the next twelve months.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 21. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed shares, at cost	–	–	<b>8,840</b>	8,840
Share of net assets	<b>103,375</b>	139,151	–	–
	<b>103,375</b>	139,151	<b>8,840</b>	8,840
Market value of listed securities	<b>60,736</b>	65,022	<b>55,798</b>	61,482

Details of the Group's associates at 31st July, 2001 are as follows:

Name of associate	Place of incorporation	Place of operation	Proportion of ownership interest		Proportion of voting power held	Principal activity
			Directly	Indirectly		
			GreaterChina	Cayman Islands		
GZTF Engineering Consulting Co., Ltd. ("GZTF") 廣州通富工程顧問有限公司	PRC	PRC	–	33%	33%	Consultancy service on construction projects

The financial statements of GZTF are not audited by Deloitte Touche Tohmatsu.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 21. INTERESTS IN ASSOCIATES - continued

Financial information of GreaterChina as extracted from its audited financial statements are as follows:

	GreaterChina	
	2001 HK\$'000	2000 HK\$'000
Non-current assets	<u>9,966</u>	<u>22,323</u>
Current assets	<u>433,759</u>	<u>435,232</u>
Non-current liabilities	<u>-</u>	<u>181</u>
Current liabilities	<u>171,955</u>	<u>112,284</u>
Minority interests	<u>-</u>	<u>4,260</u>
Net loss for the period	<u>69,059</u>	<u>27,016</u>

During the year ended 31st July, 2001, the directors of GreaterChina decided to evaluate the carrying value of the assets of GreaterChina and therefore impairment losses of website development costs and intangible asset were provided. The impairment losses, research and development costs, depreciation and amortisation expenses incurred by GreaterChina in aggregate amounted to approximately HK\$39,000,000 during the year ended 31st July, 2001.

## 22. TRADE DEBTORS - DUE AFTER ONE YEAR

### THE GROUP

The amount represents non-current portion of trade receivable from sales of completed properties. The amount bears interest at commercial rates.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 23. COMPLETED PROPERTIES FOR SALE

### THE GROUP

Completed properties for sale are situated in the PRC.

Up to 31st July, 2001, completed properties for sale included net interest capitalised of approximately HK\$6,650,000 (2000: HK\$7,170,000).

## 24. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Contract costs incurred plus recognised profits less recognised losses to date	–	13,343
Progress billings	–	(6,827)
	<u>–</u>	<u>6,516</u>
	<u>–</u>	<u>6,516</u>
Represented by:		
Due from contract customers included in current assets	–	13,343
Due to contract customers included in current liabilities	–	(6,827)
	<u>–</u>	<u>6,516</u>
	<u>–</u>	<u>6,516</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 25. TRADE AND OTHER DEBTORS

The credit terms of the Group range from 30 to 90 days. The aging analysis of trade and other debtors is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Aged:		
0 to 30 days	<b>39,327</b>	23,721
31 to 60 days	–	2,101
61 to 90 days	<b>3,000</b>	53,463
91 to 180 days	<b>6,000</b>	1,861
181 to 365 days	<b>24,098</b>	5,687
	<b><u>72,425</u></b>	<b><u>86,833</u></b>

## 26. RETENTION MONEY RECEIVABLE/PAYABLE

### THE GROUP

In accordance with the normal practice of the industry, a certain percentage of contract sums is usually withheld by principals/main contractors as retention money for a period of time after the work has been completed. Accordingly, the retention money receivable and payable represent contract sums withheld from the Group by principals/main contractors and by the Group from its subcontractors.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 27. ADVANCES TO SUBCONTRACTORS

### THE GROUP

The amounts are unsecured, bear interest at market rate except for doubtful advances on which no interest is accrued, and are repayable on demand.

The aging analysis of advances to subcontractors is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Aged:		
0 to 30 days	1,300	2,113
91 to 180 days	5,269	19,023
	<u>6,569</u>	<u>21,136</u>

## 28. TRADE AND OTHER CREDITORS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Aged:		
0 to 30 days	22,200	19,025
31 to 60 days	6,088	19,002
61 to 90 days	8,373	933
91 to 180 days	2,869	558
181 to 365 days	9,218	4,973
	<u>48,748</u>	<u>44,491</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 29. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	<b>1,659</b>	3,689	<b>1,577</b>	3,218
More than one year but not exceeding two years	<b>92</b>	1,664	<b>78</b>	1,577
More than two years but not exceeding five years	<b>27</b>	119	<b>14</b>	92
	<b>1,778</b>	5,472	<b>1,669</b>	4,887
Less: Future finance charges	<b>(109)</b>	(585)	<b>–</b>	–
	<b>1,669</b>	4,887	<b>1,669</b>	4,887
Less: Amount due within one year shown under current liabilities			<b>(1,577)</b>	(3,218)
Amount due after one year			<b>92</b>	1,669

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 30. BANK BORROWINGS, SECURED

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Bank borrowings comprise the following:		
Trust receipt loans	36,760	46,610
Bank loans and overdrafts	426,608	214,651
	<u>463,368</u>	<u>261,261</u>
	<u><u>463,368</u></u>	<u><u>261,261</u></u>
The maturity of the above borrowings is as follows:		
On demand or within one year	439,452	241,315
More than one year but not exceeding two years	7,095	1,163
More than two years but not exceeding five years	5,166	4,248
More than five years	11,655	14,535
	<u>463,368</u>	<u>261,261</u>
	<u>463,368</u>	<u>261,261</u>
Less: Amount due within one year shown under current liabilities	(439,452)	(241,315)
	<u>(439,452)</u>	<u>(241,315)</u>
Amount due after one year	<u>23,916</u>	<u>19,946</u>
	<u><u>23,916</u></u>	<u><u>19,946</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 31. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital HK\$'000</b>
Authorised:		
Shares of HK\$0.10 each		
At 31st July, 2000 and 31st July, 2001	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
Shares of HK\$0.10 each		
At 1st August, 1999	1,617,915,433	161,792
Exercise of share options	16,950,000	1,695
Exercise of warrants	87,500,763	8,750
Issued as consideration to acquire 100% of the issued share capital of Tammerworth	<u>350,000,000</u>	<u>35,000</u>
At 31st July, 2000	2,072,366,196	207,237
Issued pursuant to a placing and subscription agreement	180,000,000	18,000
Exercise of share options	<u>3,800,000</u>	<u>380</u>
At 31st July, 2001	<u>2,256,166,196</u>	<u>225,617</u>

Pursuant to a placing and subscription agreement dated 23rd May, 2001 entered into between the Company, Central Securities Holdings Limited ("Central Securities"), a company wholly owned by Mr. Yip Kwong, Robert, the chairman of the Company, and BOCI Securities Limited ("BOCI"), Central Securities appointed BOCI as the placing agent to unconditionally placed an aggregate of 180,000,000 shares (the "Placing Shares") of HK\$0.10 each in the Company to independent investors at a price of HK\$0.15 per Placing Share and agreed to subscribe for 180,000,000 new shares of HK\$0.10 each in the Company (the "Subscription Shares") at the price of HK\$0.15 per Subscription Share. The price of HK\$0.15 represented a discount of approximately 13.29% to the closing price of HK\$0.173 per shares as quoted on the Stock Exchange and a premium of approximately 18.11% to the average closing prices of HK\$0.127 per share as quoted on the Stock Exchange for the 10 trading days up to and including 23rd May, 2001. The proceeds were used to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 5th January, 2001 and rank pari passu with other shares in issue in all respects.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 31. SHARE CAPITAL – continued

### Warrants

On 5th August, 1999, the Company entered into an agreement with the placing agents for the private placing of 300,000,000 units of warrants of the Company at a price of HK\$0.085 per unit to independent investors. Each unit of warrants will give the holder the right to subscribe in cash for one share of the Company at an initial subscription price of HK\$0.28 per share of HK\$0.10 of the Company (subject to adjustment) at any time from the date of issue thereof up to and including 31st March, 2001. On 27th February, 2000, the subscription price changed from HK\$0.28 per share to HK\$0.26 per share due to the reduction of the share premium account of the Company and the change in shareholding structure after the completion of the distribution in specie of shares in GreaterChina.

During the year, no registered warrant holders exercised their rights to subscribe for shares in the Company and the warrants expired on 31st March, 2001.

### Share option scheme

Under the terms of the share option scheme which was adopted at a special general meeting of the Company held on 30th September, 1994, the Board of Directors of the Company may, at their discretion, grant options to employees, including executive directors, of the Company or its subsidiaries to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and an amount not less than 80% of the average of the closing prices of the shares on the Stock Exchange 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. Options granted under the scheme will entitle the holder to subscribe for shares from the date of grant up to 30th September, 2004.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 31. SHARE CAPITAL – continued

### Share option scheme – continued

Movements of the outstanding share options during the year are as follows:

Exercise price	At 1st August, 2000	Number of shares		At 31st July, 2001
		Exercised during the year	Cancelled during the year	
HK\$0.72 per share	500,000	–	500,000	–
HK\$0.53 per share	3,000,000	–	–	3,000,000
HK\$0.48 per share	500,000	–	–	500,000
HK\$0.43 per share	10,000,000	–	–	10,000,000
HK\$0.33 per share	30,000,000	–	–	30,000,000
HK\$0.30 per share	67,050,000	3,800,000	1,700,000	61,550,000
HK\$0.20 per share	1,300,000	–	–	1,300,000
	<u>112,350,000</u>	<u>3,800,000</u>	<u>2,200,000</u>	<u>106,350,000</u>

During the year, no options were granted.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 32. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Distributable reserve HK\$'000	Other reserve HK\$'000	(Deficit)/ retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st August, 1999	409,760	11,613	(52,636)	-	-	(22,244)	346,493
Issue of new warrants, net of expenses	-	-	-	-	23,798	-	23,798
Premium arising from issue of shares	105,000	-	-	-	-	-	105,000
Premium arising from issue of shares on exercises of warrants, net of expenses	22,400	-	-	-	(6,939)	-	15,461
Premium arising from issue of shares on exercise of options	2,580	-	-	-	-	-	2,580
Goodwill reversed on disposal of an associate	-	-	2,152	-	-	-	2,152
Negative goodwill on acquisition of a subsidiary	-	-	758	-	-	-	758
Reduction of share premium transferred to distributable reserve	(150,000)	-	-	150,000	-	-	-
Transfer	-	-	-	(72,967)	-	72,967	-
Net profit for the year	-	-	-	-	-	216,320	216,320
Distributions ( <i>note 13</i> )	-	-	-	-	-	(149,927)	(149,927)
At 31st July, 2000	389,740	11,613	(49,726)	77,033	16,859	117,116	562,635
Premium arising from issue of shares, net of expenses	8,899	-	-	-	-	-	8,899
Premium arising from issue of shares on exercise of options	760	-	-	-	-	-	760
Realised upon expiry of warrants	-	-	-	-	(16,859)	-	(16,859)
Net loss for the year	-	-	-	-	-	(116,592)	(116,592)
At 31st July, 2001	<u>399,399</u>	<u>11,613</u>	<u>(49,726)</u>	<u>77,033</u>	<u>-</u>	<u>524</u>	<u>438,843</u>
Attributable to:							
Company and subsidiaries	399,399	11,613	(49,726)	77,033	-	38,662	476,981
Associates	-	-	-	-	-	(38,138)	(38,138)
	<u>399,399</u>	<u>11,613</u>	<u>(49,726)</u>	<u>77,033</u>	<u>-</u>	<u>524</u>	<u>438,843</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 32. RESERVES – continued

	Share premium	Distributable reserve	Other reserve	(Deficit)/ retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE COMPANY</b>					
At 1st August, 1999	409,760	–	–	(72,967)	336,793
Issue of new warrants, net of expenses	–	–	23,798	–	23,798
Premium arising from issue of shares	105,000	–	–	–	105,000
Premium arising from issue of shares on exercises of warrants, net of expenses	22,400	–	(6,939)	–	15,461
Premium arising from issue of shares on exercises of options	2,580	–	–	–	2,580
Reduction of share premium transferred to distributable reserve	(150,000)	150,000	–	–	–
Transfer	–	(72,967)	–	72,967	–
Net profit for the year	–	–	–	150,377	150,377
Distributions ( <i>note 13</i> )	–	–	–	(149,927)	(149,927)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31st July, 2000	389,740	77,033	16,859	450	484,082
Premium arising from issue of shares, net of expenses	8,899	–	–	–	8,899
Premium arising from issue of shares on exercises of options	760	–	–	–	760
Realised upon expiry of warrants	–	–	(16,859)	–	(16,859)
Net loss for the year	–	–	–	(39,010)	(39,010)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31st July, 2001	<u>399,399</u>	<u>77,033</u>	<u>–</u>	<u>(38,560)</u>	<u>437,872</u>

The capital reserve of the Group represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1994.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 33. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Balance brought forward	29,555	50,099
Transfer to consolidated income statement ( <i>note 11</i> )	(8,955)	(20,544)
	<u>20,600</u>	<u>29,555</u>

At the balance sheet date, the components of deferred taxation are as follows:

	2001	2000
	HK\$'000	HK\$'000
THE GROUP		
Tax effect of timing differences because of:		
Surplus on revaluation of properties in the PRC upon acquisition by the Group	20,600	28,600
Excess of tax allowances over depreciation	—	955
	<u>20,600</u>	<u>29,555</u>

A deferred tax asset of approximately HK\$26,800,000 (2000: HK\$19,100,000) has not been recognised in the financial statements in respect of estimated tax losses available to offset future profits as it is not certain that the estimated tax losses will be utilised in the foreseeable future.

### THE COMPANY

The Company did not have any significant unprovided deferred taxation at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

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

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
(Loss) profit before taxation	<b>(127,131)</b>	228,425
Share of results of associates	<b>28,140</b>	14,068
Gain on disposal of GreaterChina	–	(227,854)
Net gain on disposal of an associate	–	(179,520)
Provision for bad and doubtful debts	<b>1,718</b>	19,437
Depreciation and amortisation	<b>10,290</b>	10,351
Loss on disposal of property, plant and equipment	–	38
Interest income	<b>(22,376)</b>	(15,697)
Interest on bank borrowings	<b>27,113</b>	19,635
Finance charges in respect of finance leases and hire purchase contracts	<b>458</b>	337
Gain realised on expiry of warrants	<b>(16,859)</b>	–
Impairment losses for properties under development and completed properties for sale	<b>1,620</b>	109,040
Deficit arising from revaluation of investment properties	<b>52,593</b>	–
Increase in trade debtors – due after one year	<b>(15,683)</b>	–
Decrease in properties under development	<b>(54,596)</b>	40,846
Decrease in completed properties for sale	<b>6,723</b>	–
Decrease in amounts due from contract customers	<b>13,343</b>	18,782
(Increase) decrease in amount due from an associate	<b>(3,308)</b>	2,942
Decrease (increase) in trade and other debtors	<b>12,690</b>	(27,007)
Increase in deposits, temporary payment and prepayments	<b>(26,294)</b>	(4,722)
Decrease (increase) in retention money receivable	<b>1,343</b>	(1,413)
Decrease (increase) in advances to subcontractors	<b>14,567</b>	(27,196)
Increase in trade and other creditors	<b>4,257</b>	2,372
(Decrease) increase in amounts due to contract customers	<b>(6,827)</b>	6,827
Increase (decrease) in accrued charges	<b>4,722</b>	(2,179)
Increase in retention money payable	<b>4,041</b>	4,864
(Decrease) increase in amount due to an associate	<b>(562)</b>	965
	<b>(90,018)</b>	(6,659)
Net cash outflow from operating activities	<b>(90,018)</b>	(6,659)

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 35. ACQUISITION OF A SUBSIDIARY

During the year ended 31st July, 2000, the Group acquired 100% of the issued share capital of Tammerworth and the benefits of shareholders' loans totalling HK\$40,651,652 granted to Tammerworth for HK\$140,000,000. The consideration was satisfied by the issue and allotment of 350,000,000 shares of the Company. This transaction has been accounted for by using the acquisition method of accounting.

	2001 HK\$'000	2000 HK\$'000
NET ASSETS ACQUIRED		
Golf resort under construction	–	83,050
Prepayment for golf resort under construction	–	56,950
Property, plant and equipment	–	654
Trade and other debtors	–	64
Bank balances and cash	–	40
	<u>–</u>	<u>140,758</u>
Net assets acquired during the year	–	140,758
Goodwill	–	(758)
	<u>–</u>	<u>140,000</u>
SATISFIED BY		
Shares allotted	–	140,000
	<u>–</u>	<u>140,000</u>
CASH INFLOW ARISING ON ACQUISITION		
Bank balances and cash acquired	–	40
	<u>–</u>	<u>40</u>

The 350,000,000 shares of the Company were issued at a price of HK\$0.40 per share.

During the year since acquisition up to 31st July, 2000, the subsidiary acquired contributed HK\$1,026,000 of the Group's net operating cash flows and utilised HK\$1,335,000 for investing activities. The results of the subsidiary acquired attributable to the Group between the date of acquisition and 31st July, 2000 were insignificant.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 36. DISTRIBUTION OF SHARES IN GREATERCHINA

On 26th February, 2000, the Company distributed 75,462,452 shares of GreaterChina to the shareholders of the Company thereby reducing the Company's interest in GreaterChina from 65.72% to 49.86%. The net assets disposed of were as follows:

	2001 HK\$'000	2000 HK\$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	–	2,019
Website development costs	–	8,551
Bank balances and cash	–	95,420
Other debtors	–	56
Other creditors	–	(120)
	<u>–</u>	<u>105,926</u>
Less: Minority interests	–	(36,322)
	<u>–</u>	<u>69,604</u>
Gain on distribution of shares in GreaterChina ( <i>note 7</i> )	–	97,443
	<u>–</u>	<u>167,047</u>
Distribution in specie	–	108,482
Interest in GreaterChina	–	58,565
	<u>–</u>	<u>167,047</u>
CASH OUTFLOW ARISING ON DISPOSAL		
Bank balances and cash disposed of	–	(95,420)
	<u>–</u>	<u>(95,420)</u>

During the year since the disposal up to 31st July, 2000, the subsidiary disposed of contributed HK\$64,000 of the Group's net operating cash flows, received HK\$95,420,000 in respect of financing activities and utilised HK\$10,570,000 for investing activities. The results of GreaterChina attributable to the Group between the date of disposal and 31st July, 2000 were disclosed in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 37. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital, share premium and other reserve	Trust receipt loans	Bank loans	Obligations under finance leases and hire purchase contracts	Minority interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st August, 1999	571,552	14,338	–	1,469	719
Issue of shares for cash	28,486	–	–	–	–
Issue of warrants for cash	25,500	–	–	–	–
Expenses incurred in connection with the issue of shares, warrants and options	(1,702)	–	–	–	–
Issue of shares for acquisition of a subsidiary	140,000	–	–	–	–
Reduction of share premium transferred to distributable reserve	(150,000)	–	–	–	–
New bank loans raised	–	–	21,595	–	–
Net cash inflow during the year	–	11,181	–	–	–
Inception of finance leases and hire purchase contracts	–	–	–	6,173	–
Repayment during the year	–	–	(847)	(2,755)	–
Share of loss by minority shareholders	–	–	–	–	(719)
Arising from capital contribution by minority shareholders	–	–	–	–	36,322
Distribution of shares in GreaterChina	–	–	–	–	(36,322)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31st July, 2000	613,836	25,519	20,748	4,887	–
Issue of shares for cash	28,140	–	–	–	–
New bank loans raised	–	–	24,657	–	–
Expenses incurred in connection with the issue of shares, warrants and options	(101)	–	–	–	–
Realised upon expiry of warrants	(16,859)	–	–	–	–
Net cash outflow during the year	–	(11,733)	–	–	–
Repayment during the year	–	–	(1,161)	(3,218)	–
Share of profit by minority shareholders	–	–	–	–	802
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31st July, 2001	<u>625,016</u>	<u>13,786</u>	<u>44,244</u>	<u>1,669</u>	<u>802</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 38. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 HK\$'000	2000 HK\$'000
Short-term bank deposits secured for credit facilities	413,282	335,448
Bank balances and cash	10,727	6,230
Trust receipt loans, repayable within three months from the date of the advances	(22,974)	(21,091)
Bank loans and overdrafts, repayable within three months from the date of the advances	<u>(382,364)</u>	<u>(193,903)</u>
	<u>18,671</u>	<u>126,684</u>

The Group's short-term bank deposits have been pledged to secure banking facilities granted by banks.

## 39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st July, 2000, the Group entered into finance leases and hire purchase contracts in respect of assets with a total capital value at the inception of the finance leases and hire purchase contracts of approximately HK\$6,173,000.

During the year ended 31st July, 2000, the Company issued shares to acquire interest in a subsidiary, details of which are set out in note 35.

During the year ended 31st July, 2000, the Company distributed 75,462,452 shares of GreaterChina to the shareholders of the Company by way of a distribution in specie, effects of which are set out in note 36.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 40. COMMITMENTS

At the balance sheet date, the Group had the following future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Operating leases which expire:		
– within one year	1,100	208
– in the second to fifth year inclusive	244	131
	<u>1,344</u>	<u>339</u>

At the balance sheet date, the Group had the following other commitments:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Commitments contracted for but not provided in the financial statements in relation to:		
– acquisition of shares in a subsidiary from a minority shareholder	4,400	4,400
– construction of golf resort	2,846	1,991
	<u>7,246</u>	<u>6,391</u>
Commitments authorised but not contracted for:		
– construction of properties	1,900	1,744

At the balance sheet date, the Company did not have any commitments.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 41. PLEDGE OF ASSETS

### THE GROUP

At the balance sheet date, leasehold land and buildings having a net book value of approximately HK\$40,870,000 (2000: HK\$42,098,000), bank deposits of approximately HK\$413,282,000 (2000: HK\$335,448,000), certain trade receivable from customers, certain investment properties and certain completed properties for sale of the Group have been pledged to banks to secure credit facilities granted to the Group.

### THE COMPANY

At the balance sheet date, a bank deposit of approximately HK\$97,542,000 (2000: HK\$23,716,000) has been pledged to a bank to secure credit facilities granted to the Group.

## 42. CONTINGENT LIABILITIES

### THE GROUP

At the balance sheet date, the Group did not have any significant contingent liabilities.

### THE COMPANY

The Company has given corporate guarantees to banks in respect of banking facilities granted to its subsidiaries of which approximately HK\$225,739,000 (2000: HK\$261,261,000) were utilised at the balance sheet date.

## 43. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following related party transactions:

- (i) The Group received rental of HK\$474,000 (2000: HK\$184,000) from GreaterChina. The charge is based on the areas occupied by GreaterChina at a unit rate of HK\$17 per square feet pursuant to the agreement entered into between the parties dated 21st February, 2000. The unit rate per square feet was determined by reference to the market rental transactions similar to this property in January 2000, which was confirmed by a chartered surveyor.
- (ii) The Group received administrative service fee of HK\$480,000 (2000: HK\$216,000) from GreaterChina. The fee is charged at a fixed monthly fee of HK\$40,000 pursuant to the agreement entered into between the parties dated 21st February, 2000. The fee was calculated with reference to the proportion of the estimated time spent by the staff of the Group on the affairs of GreaterChina.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 43. RELATED PARTY TRANSACTIONS – continued

- (iii) The Group provided qualified Chinese herbalist doctors to handle online enquiries for the users of GreaterChina's website. In respect of the services provided, the Group received consultant fee of HK\$600,000 (2000: HK\$438,000) from GreaterChina. The fee is charged at a fixed monthly fee of HK\$50,000 pursuant to the agreement entered into between parties dated 11th November, 1999. The fee was calculated with reference to the proportion of the estimated time spent by the doctors.
- (iv) The Group received website development fee of HK\$670,000 (2000: HK\$150,000) from GreaterChina pursuant to the agreement entered into between the parties dated 3rd January, 2000. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (v) The Group paid advertising fee of HK\$1,900,000 (2000: HK\$353,000) to GreaterChina. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (vi) The Group paid information technology advisory fee of HK\$329,000 (2000: HK\$772,000) to GreaterChina. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (vii) At 31st July, 2001, an amount of HK\$403,000 (2000: HK\$965,000) was due to GreaterChina Group and an amount of HK\$3,308,000 (2000: nil) was due from GZTF. These amounts are unsecured, non-interest bearing and are repayable on demand.
- (viii) During the year ended 31st July, 2000, Ms. Cheng Kit Yin, Kelly and certain employees of the Group were granted rights to subscribe for up to 15 per cent. of the capital of GreaterChina at par value of HK\$0.01 each.
- (ix) During the year ended 31st July, 2000, the Group acquired the entire issued share capital of Tammerworth and the benefits of shareholders' loans totalling HK\$40,651,652 granted to Tammerworth from Ms. Yeung Pak Wa and Mr. Yip Siu Sang at a total consideration of HK\$140,000,000 which were satisfied by the issue of a total of 350,000,000 shares of the Company. Pursuant to the agreement, Ms. Yeung Pak Wa and Mr. Yip Siu Sang are responsible for all costs and expenses to be incurred in the construction of the golf resort. Pursuant to the valuation report issued by Chesterton Petty Limited dated 14th February, 2000, the estimated costs to complete the golf resort amounted to approximately HK\$56,950,000. Mr. Yip Siu Sang is the elder brother of Mr. Yip Kwong, Robert, the chairman of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 44. RETIREMENT BENEFITS SCHEME

The Group did not operate any retirement benefits scheme for its employees or directors during the year ended 31st July, 2000.

Since 1st December, 2000, the Group has operated a pension scheme under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance (“MPF Scheme”) for all employees in Hong Kong. The assets of the MPF Scheme are held separately in an independently managed fund. The Group has followed the minimum statutory contribution requirement of 5% of eligible employees’ relevant aggregate income. The contributions are charged to the income statement as incurred. No forfeited contribution is available to reduce the contribution payable in future years.

## 45. SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration and operation	Proportion of ownership interest and voting power held	Issued and fully paid share capital	Principal activity
Benefit Holdings International Limited ( <i>note a</i> )	British Virgin Islands	100%	US\$200	Investment holding
Bright Success Enterprises Limited	British Virgin Islands	100%	US\$1	Investment holding
Build Policy Limited	Hong Kong	100%	Ordinary HK\$100 Non-voting deferred ( <i>note b</i> ) HK\$1,000,000	Investment holding
Business Rootis Limited	Hong Kong	100%	Ordinary HK\$100 Non-voting deferred ( <i>note b</i> ) HK\$2	Property holding

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 45. SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation or registration and operation	Proportion of ownership interest and voting power held	Issued and fully paid share capital	Principal activity
Cater Associates Limited (note c)	Hong Kong	90%	Ordinary HK\$10,000	Inactive
China Force Limited	Hong Kong	100%	Ordinary HK\$2	Inactive
China Rich Construction Company Limited	Hong Kong	100%	Ordinary HK\$2	Investment holding
China Rich International Investments Holdings Limited	British Virgin Islands	100%	Ordinary US\$1	Inactive
China Rich Properties Limited ("China Rich")	Hong Kong	100%	Ordinary HK\$10,000,000	Property development
China Rich Technology Limited	British Virgin Islands	100%	US\$10,000	Investment holding
Condor Holdings Limited	Hong Kong	100%	Ordinary HK\$10,000	Investment holding
D&D Media & Productions Limited	Hong Kong	100%	Ordinary HK\$10,000	Inactive
Evergreen Club Limited	Hong Kong	100%	Ordinary HK\$2	Operation of a retirement club
Evergreen Holdings Limited (note a)	Cayman Islands	100%	Ordinary HK\$0.01	Inactive

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 45. SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation or registration and operation	Proportion of ownership interest and voting power held	Issued and fully paid share capital	Principal activity
Evergreen Travel Agency Limited	Hong Kong	100%	Ordinary HK\$500,000	Travel agent
Expo Media Services Limited	British Virgin Islands	100%	US\$1	Inactive
Fitzroya Finance Company Limited	Hong Kong	100%	Ordinary HK\$1,000,000	Money lending
Gala Development Group Limited	British Virgin Islands	100%	Ordinary US\$100	Inactive
Gaoming Silver Ocean Golf Club Co., Limited	Hong Kong	100%	Ordinary HK\$2	Inactive
Greater China Herbs Development Company Limited	Hong Kong	100%	Ordinary HK\$2	Operation of a Chinese medical clinic
Loyal Communication Limited (note a)	British Virgin Islands	100%	Ordinary US\$1,000	Inactive
Kai Him Holdings Limited (note c)	Hong Kong	90%	Ordinary HK\$10,000	Inactive
Marvelink Limited	British Virgin Islands	100%	US\$2	Investment holding
Mega Pacific Holdings Limited ("Mega")	Hong Kong	98%	Ordinary HK\$38,747,557	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 45. SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation or registration and operation	Proportion of ownership interest and voting power held	Issued and fully paid share capital	Principal activity
Multi Capital Holdings Limited	Hong Kong	100%	Ordinary HK\$2	Inactive
Perfectown Limited	Hong Kong	100%	Ordinary HK\$2	Inactive
Shunde China Rich Properties Limited ("Shunde China Rich")	PRC	100%	(note d)	Property development
Tammerworth Development Limited	Hong Kong	100%	Ordinary HK\$1,500,000	Investment holding
Union Public Cars Limited (note c)	Hong Kong	100%	Ordinary HK\$2	Inactive
Wai Shun Construction Company Limited	Hong Kong	100%	Ordinary HK\$100 Non-voting deferred (note b) HK\$30	Inactive
Wing Fai (China) Development Limited	Hong Kong	100%	Ordinary HK\$10	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 45. SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation or registration and operation	Proportion of ownership interest and voting power held	Issued and fully paid share capital	Principal activity
Wing Fai Construction Company Limited	Hong Kong	100%	Ordinary HK\$100 Non-voting deferred ( <i>note b</i> ) HK\$28,000,000	Repairs and maintenance of civil engineering establishments
Wing Fai (Overseas) Development Limited ( <i>note c</i> )	Hong Kong	90%	Ordinary HK\$10,000	Investment holding
Wing Fai Overseas Engineering Limited ( <i>note c</i> )	Hong Kong	90%	Ordinary HK\$10,000	Inactive
Wing Fai Property Management Limited ( <i>note c</i> )	Hong Kong	54%	Ordinary HK\$10,000	Investment holding
Zhukuan Wing Fai Construction Company Limited	Hong Kong	( <i>note e</i> )	Ordinary HK\$100,000	Repairs and maintenance of civil engineering establishments
廣州市紫霞山莊有限公司 (「紫霞山莊」) (formerly known as 花都市萬福山莊有限公司)	PRC	51% ( <i>note f</i> )	Registered HK\$9,330,000	Operation of a recreational park
廣東協和高級醫療中心	PRC	( <i>note g</i> )	Registered RMB10,015,863	Operation of a medical centre in the PRC

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 45. SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation or registration and operation	Proportion of ownership interest and voting power held	Issued and fully paid share capital	Principal activity
高明銀海高爾夫球俱樂部有限公司 Gaoming Silver Ocean Golf Club Co., Ltd. ("Gaoming Silver Ocean") (note 4)	PRC	100%	Registered US\$4,367,000	Operation of a golf club resort in the PRC

Notes:

- (a) Benefit Holdings International Limited, Loyal Communication Limited and Evergreen Holdings Limited are directly held by the Company. All other companies are indirectly held by the Company.
- (b) The non-voting deferred shares are held by Benefit Holdings International Limited and carry minimal right to dividend or to receive notice of or to attend or vote at any general meeting of the company. On a winding-up, the holders of the non-voting deferred shares shall be entitled out of the surplus assets of the company to a return of the capital paid up to the non-voting deferred shares held by them respectively after a total sum of HK\$100,000,000,000,000 has been distributed in such winding-up in respect of each of the ordinary shares of the company.
- (c) Applied for a strike off from the Companies Registry on 1st August, 1998.
- (d) Shunde China Rich was established in the PRC in March 1996 in accordance with a cooperative joint venture agreement entered into between China Rich and a PRC party on 18th June, 1994. The principal activities of Shunde China Rich are the development, sales and leasing of the property development project currently undertaken by China Rich. Pursuant to the joint venture agreement, China Rich is entitled to the entire profit or loss of Shunde China Rich and on liquidation of Shunde China Rich, China Rich is entitled to all the assets and liabilities of Shunde China Rich.
- (e) This is a joint venture company established under a joint venture agreement with Zhuhai International Economic & Technical Corporation Corp. ("Zhuhai Int'l") dated 30th July, 1998, the Group is entitled to all profit and loss of Zhuhai Wing Fai Construction Company Limited, and Zhuhai Int'l is entitled to 0.5% of the gross contract value of each contract. Pursuant to the supplementary agreement dated 31st May, 2001, Zhuhai Int'l is entitled to 1% of the additional gross contract value of each contract since 31st May, 2001.
- (f) 紫霞山莊 is a foreign owned equity joint venture for a period of 20 years from 26th December, 1993 and there are provisions for extension of its period under the terms of its memorandum and articles of association.
- (g) This is a joint venture for a period of 12 years up to December 2007 established under a joint venture agreement with another PRC party. Under the joint venture agreement, there are provisions to extend the period of the joint venture, the Group is required to contribute the entire registered capital of the joint venture, and is also required to guarantee that the profit payable to the PRC joint venture partner is not less than RMB700,000 per annum or 20% of the annual net profit of the joint venture, whichever is higher. This joint venture is 100% owned by Mega.
- (h) Gaoming Silver Ocean was established in the PRC in August 1993 in accordance with a Sino-foreign cooperative joint venture agreement ("JV agreement") entered into between Norton International Limited and a PRC party on 29th July, 1993. Pursuant to the agreement entered into between the Group and the relevant PRC parties on 26th July, 1997, the entire interest of Norton International Limited in Gaoming Silver Ocean was transferred to the Group. Pursuant to the JV agreement and the supplemental agreement, the joint venture is for a period of 30 years from August 1993 and can be extended to a period subject to the negotiation between the parties. The Group is entitled to a profit sharing ratio of 80%. However, if Gaoming Silver Ocean operates at a loss, all the loss will be shared by the Group. Gaoming Silver Ocean has a registered capital of US\$8,000,000. Up to 31st July, 2001, the Group has contributed an aggregate investment of HK\$34,060,000.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2001

## 46. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company entered into a conditional placing and underwriting agreement with Kingston Securities Limited and Kingston Corporate Finance Limited for the proposed private placing of 400,000,000 warrants with over-allocation option to issue up to 451,233,239 warrants conferring rights in registered form to subscribe for shares in the Company at an initial subscription price of HK\$0.35 per share (subject to adjustments) with independent investors. The warrants are to be placed at HK\$0.10 per warrant. The directors intend to allocate the net proceeds of approximately HK\$37.9 million as general working capital of the Company.