

NOTES TO THE FINANCIAL STATEMENTS

31 December 2001

These notes form an integral part of the financial statements.

1. PRINCIPAL ACTIVITIES

The principal activities of the Company comprise those of investment holding and the provision of consultancy services.

The principal activities of its subsidiaries comprise those of investment holding, e-business enablement, provision of hospitality solutions, hotel management services, reservation services, insurance sales and risk management services, accounting and payroll services and procurement services.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 5 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of Preparation of the Financial Statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investment in a subsidiary is consolidated into the consolidated financial statements.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(d) Fixed Assets and Depreciation

- (i) Fixed assets are carried in the balance sheets at cost less accumulated depreciation and impairment losses (see note 2(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Fixed Assets and Depreciation (cont'd)

- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.
- (iv) Depreciation is provided on a straight-line basis so as to write off fixed assets over their estimated useful lives as follows:

Plant, machinery and equipment (comprising principally furniture and fixtures and office equipment)	– 6% to 33.33%
Motor vehicles	– 20%

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- For acquisitions before 1 January 2001, positive goodwill is written off directly to reserves and is reduced by impairment losses (see note 2(i)); and
- For acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 2(i)).

Negative goodwill arising on consolidation represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- For acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- For acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account. Any negative goodwill not yet recognised in the consolidated profit and loss account is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 December 2001

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Other Investments in Securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(g) Intangible Assets (other than Goodwill)

- (i) Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(i)).
- (ii) Subsequent expenditure on an intangible asset after its purchase is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.
- (iii) Amortisation of intangible assets, comprising trademarks, is charged to the profit and loss account on a straight line basis over the assets' estimated useful lives of ten years.

(h) Leased Assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Finance Leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note 2(d) above. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Leased Assets (cont'd)

(ii) Operating Leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(i) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- investments in subsidiaries (except for those accounted for at fair value under note 2(c));
- other investments in securities (except for those accounted for at fair value under note 2(f)); and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are amortised over more than 20 years from the date when the asset is available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(j) Deferred Taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(k) Revenue Recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Revenue arising from hotel management services, reservation distribution, purchasing, technology outsourcing, hospitality application service provider, and accounting and payroll services is recognised when the relevant services are delivered.
- (ii) Revenue arising from insurance and risk management services, where the Group acts as an agent and does not assume underwriting risk, is recognised based on the net amount retained or the amount billed to the customer less the amount paid to suppliers.
- (iii) Revenue arising from insurance and risk management services, where the Group assumes underwriting risks, is recognised on a straight-line basis over the term of the insurance policy.
- (iv) Interest income is accrued on a time-apportioned basis on the principal outstanding at the rate applicable.
- (v) Dividend income from investments is recognised when the shareholder's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Foreign Currency Translation

- (i) Monetary assets and liabilities in foreign currencies are translated into the reporting currency of the Company and its subsidiaries at rates of exchange ruling at the balance sheet date and transactions in foreign currencies during the year are translated at rates ruling on the transaction dates. Exchange gains and losses are dealt with in the profit and loss account.
- (ii) Assets and liabilities of overseas subsidiaries are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date while the results are translated into Hong Kong dollars at the average exchange rates for the year. Exchange differences arising thereon are taken directly to reserves.

(m) Software Costs

Cost incurred to develop or obtain software that allows for access or conversion of old data by new systems is capitalised. Software purchased from third parties is capitalised if the related software under development has reached technological feasibility or if there are alternative future uses for the purchased software. Technological feasibility is attained when software products reach Beta release. These capitalised software costs will be amortised over the lesser of three years or the useful life of the software.

Costs incurred prior to the establishment of technological feasibility are charged to product development expense. Costs incurred in connection with business process reengineering are expensed as incurred.

In addition, costs of materials, consultant, interest and payroll related costs for employees incurred in developing internal use computer software is capitalised once technological feasibility is attained. Costs incurred prior to the establishment of technological feasibility are charged to general and administrative expense.

(n) Retirement Costs

Contributions to defined contribution schemes are charged to the profit and loss account as incurred.

(o) Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(p) Cash Equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

(q) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Segment Reporting (cont'd)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses and minority interests.

(r) Liability for Unpaid Insurance Claims

Liability for unpaid insurance claims are based on claims filed and estimates for claims incurred but not reported.

3. TURNOVER

Turnover of the Group comprises revenue from hospitality-related operations and gross dividend income and interest income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Hospitality related services	76,372	94
Investment holding activities	21,825	145,310
Leisure	-	12,553
	98,197	157,957

4. OTHER NET EXPENSES

	The Group	
	2001 HK\$'000	2000 HK\$'000
Exchange loss (net)	(12,814)	(36,820)
Profit on sale of fixed assets (net)	714	194
Profit on sale of other securities	-	430
Net unrealised loss on stating securities at fair value	(4,515)	(5,481)
Others	358	1,709
	(16,257)	(39,968)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 December 2001

5. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Investment holding: The activities of investing.

Hospitality related services: The provision of hotel management, hotel reservation services, risk management services, bulk purchasing and e-procurement enabler, hospitality application service provider, and accounting and payroll services.

	Investment Holding	
	2001	2000
	HK\$'000	HK\$'000
Revenue from external customers	21,825	145,310
(Loss)/Profit from operations	(13,379)	80,754
Finance costs		
Profit arising from disposal of subsidiaries		
Taxation		
Minority interests		
(Loss)/Profit attributable to shareholders		
Depreciation and amortisation for the year	1,713	1,634
Impairment loss for the year	-	-
Significant non-cash expenses (other than depreciation and amortisation)	5,474	-

Hospitality Related Services		Leisure		Consolidated	
2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
76,372	94	–	12,553	98,197	157,957
(24,726)	(57,102)	–	1,087	(38,105) (16) – (170) 2,626	24,739 (4,783) 4,698 (3,282) 5,762
				(35,665)	27,134
1,949	289	–	865	3,662	2,788
2,812	31,126	–	–	2,812	31,126
–	–	–	–	5,474	–

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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5. SEGMENT REPORTING (CONT'D)

	Investment Holding	
	2001	2000
	HK\$'000	HK\$'000
Segment assets	556,704	439,245
Segment liabilities	481	26,312
Capital expenditure incurred during the year	1,077	3,226

Geographical segments

The Group's investing activities are mainly carried out in Hong Kong and Singapore. The hospitality related services are carried out by the subsidiaries based in the United States.

In presenting information on the basis of geographical segments, segment revenue, in relation to investment holding is based on the geographical location of investments and segment revenue in relation to hospitality related services is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong	
	2001	2000
	HK\$'000	HK\$'000
Revenue from external customers	15,112	145,310
Segment assets	383,740	439,245
Capital expenditure incurred during the year	1,077	3,226

Hospitality Related Services		Leisure		Consolidated	
2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
45,373	230,811	-	-	602,077	670,056
38,466	33,235	-	-	38,947	59,547
6,161	2,800	-	464	7,238	6,490

United States		Singapore		Indonesia	
2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
76,372	94	6,713	-	-	12,553
45,373	230,811	172,964	-	-	-
6,161	2,800	-	-	-	464

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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6. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	The Group	
	2001 HK\$'000	2000 HK\$'000
<i>(Loss)/Profit from ordinary activities before taxation is arrived at after charging/(crediting):</i>		
(a) Finance costs		
Interest expense on lease and bank loans	16	4,783
(b) Other items		
Amortisation of intangible assets	94	–
Auditors' remuneration	1,105	827
Depreciation of fixed assets	3,568	2,788
Fixed assets written off	959	–
Provision for doubtful receivables (trade)	62	–
Staff costs (including retirement costs of HK\$5,683,000 (2000: HK\$Nil))	48,819	10,694
Interest income		
– bank	(22,464)	(140,254)
– others	(433)	(5,150)
Operating lease charges: minimum lease payments		
– property rentals	3,498	256
Impairment losses		
– intangible assets	335	–
– fixed assets	2,477	–
– goodwill arising on consolidation	–	31,126

7. NON-OPERATING ITEMS

For the year ended 31 December 2000, profit before taxation was arrived at after taking into account the following:

- Gain of HK\$3,161,000 arising from the disposal of the Company's hotel and property interests, which had previously been consolidated in its 52.4% owned subsidiary, Millennium & Copthorne Hotels plc ("M&C"), to its immediate holding company, City Developments Limited. Pursuant to the terms of the transfer agreement, the disposal is effective on 1 January 2000. There were no results generated from these operations in 2000 which were previously reported in the development properties, hotel operations and rental income activity segments as well as all the geographical segments; and
- Net gain of HK\$1,537,000 arising from the disposal of a subsidiary, Undersea World Indonesia Limited, after taking into consideration the write-off of intercompany balances due from the subsidiary of HK\$24,689,000 in connection with the disposal. The results of this operation had previously been reported in the leisure activity segment and in Indonesia under the geographical segment.

8. TAXATION

	The Group	
	2001 HK\$'000	2000 HK\$'000
Taxation in the consolidated profit and loss account represents:		
Current		
Hong Kong – current year	–	1,252
Overseas – current year	–	114
– (over)/underprovision in respect of prior years (net)	(54)	2,255
	(54)	3,621
Deferred (Note 22)		
Hong Kong – current year	(460)	–
– underprovision in respect of prior year	987	–
Overseas – current year	(303)	–
– overprovision in respect of prior years (net)	–	(339)
	224	(339)
	170	3,282

In 2000, Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong.

There is no overseas taxation charge for the current financial year in view of the losses incurred.

The Company is exempted from taxation in the Cayman Islands for a period of twenty years from 1989 under the provisions of Section 6 of the Tax Concessions Law (Revised) of the Cayman Islands.

9. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Loss after taxation to the extent of HK\$34,927,000 (2000: profit after taxation of HK\$408,500,000) has been dealt with in the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 December 2001

10. DIVIDENDS

- (a) Dividends attributable to the year

	The Group	
	2001 HK\$'000	2000 HK\$'000
Final dividend proposed after the balance sheet date of nil cents per share (2000: 2 cents per share)	-	7,663

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

- (b) Dividends attributable to the previous financial year, approved and paid during the year

	The Group	
	2001 HK\$'000	2000 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 2 cents per share (2000: 6 cents per share)		
- scrip	-	80,343
- by cash	7,663	41,140
	<u>7,663</u>	<u>121,483</u>

11. (LOSS)/EARNINGS PER SHARE

- (a) Basic (Loss)/Earnings Per Share

In the current financial year, the calculation of basic loss per share is based on loss after taxation attributable to shareholders of HK\$35,665,000 and 383,125,524 ordinary shares in issue during the year.

In 2000, the calculation of basic earnings per share is based on profit after taxation attributable to shareholders of HK\$27,134,000 and the weighted average of 5,731,806,361 ordinary shares in issue during the year, after taking into consideration the issue of 5,637,790,382 ordinary shares, the capital reduction and share consolidation during the year.

- (b) Diluted (Loss)/Earnings Per Share

Dilutive loss per share is not applicable as there are no dilutive potential ordinary shares during the financial year.

In 2000, the calculation of diluted earnings per share is based on profit after taxation attributable to shareholders of HK\$27,134,000 and the weighted average of 5,744,633,587 ordinary shares in issue during the year, adjusted for the effects of all dilutive potential ordinary shares.

11. (LOSS)/EARNINGS PER SHARE (CONT'D)

(c) Reconciliations

	The Company	
	2001	2000
Weighted average number of ordinary shares used in calculating basic earnings per share	383,125,524	5,731,806,361
Deemed issue of ordinary shares for no consideration	–	12,827,226
Weighted average number of ordinary shares used in calculating diluted earnings per share	383,125,524	5,744,633,587

12. CHANGES IN ACCOUNTING POLICIES**(a) Dividends**

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they relate. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) – Events After the Balance Sheet Date issued by the Hong Kong Society of Accountants, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

As a result of the new accounting policy, the Group's net assets as at 31 December 2000 have been increased by HK\$7,663,000. There is no impact on the Group's (loss)/profit attributable to shareholders for periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

(b) Goodwill

In prior years, positive goodwill arising on acquisition of subsidiaries was eliminated against reserves. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 30 ("SSAP 30") – Business Combinations issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for goodwill as set out in note 2(e).

The Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 with the effect that the new accounting policy has been adopted prospectively and hence the goodwill arising on consolidation previously included in reserves was not restated. The Group is, however, required to estimate any impairment loss that has arisen on the goodwill since the date of acquisition. As the Group has not previously adopted a policy of recognising impairment losses in respect of goodwill written off against reserves, implementation of this new accounting policy is treated as a change in accounting policy in accordance with Statement of Standard Accounting Practice 2 – Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

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12. CHANGES IN ACCOUNTING POLICIES (CONT'D)

(b) Goodwill (cont'd)

In accordance with the new accounting policy, the Group estimated that an impairment loss of HK\$31,126,000 has arisen in the previous financial year with respect to the goodwill arising on consolidation. The Group's profit for the previous financial year is thus reduced by HK\$31,126,000. There is no impact on the Group's net assets as at 31 December 2000. This new accounting policy has been adopted retrospectively, with the comparative information adjusted for the amounts relating to prior periods.

13. FIXED ASSETS

(a) The Group

	Plant, Machinery & Equipment	Motor Vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1 January 2001	6,891	9,028	15,919
Exchange difference	(125)	(552)	(677)
Additions	7,238	–	7,238
Disposals/write-offs	(2,178)	(2,742)	(4,920)
At 31 December 2001	11,826	5,734	17,560
Depreciation and Impairment Losses			
At 1 January 2001	2,462	4,884	7,346
Exchange difference	(20)	(282)	(302)
Charge for the year	2,631	937	3,568
Impairment losses	2,477	–	2,477
Disposals/write-offs	(901)	(2,479)	(3,380)
At 31 December 2001	6,649	3,060	9,709
Net Book Value			
At 31 December 2001	5,177	2,674	7,851
At 31 December 2000	4,429	4,144	8,573

During the year, the Group acquired fixed assets amounting to HK\$7,238,000 (2000: HK\$6,490,000). Cash payments of HK\$7,238,000 (2000: HK\$5,720,000) were made to purchase fixed assets.

13. FIXED ASSETS (CONT'D)**(b) The Company**

	Plant, Machinery & Equipment	Motor Vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1 January 2001	4,092	9,028	13,120
Exchange difference	(122)	(552)	(674)
Additions	1,077	-	1,077
Disposals/written-offs	(2,178)	(2,742)	(4,920)
At 31 December 2001	2,869	5,734	8,603
Accumulated Depreciation			
At 1 January 2001	2,174	4,884	7,058
Exchange difference	(19)	(282)	(301)
Charge for the year	777	937	1,714
Disposals/written-offs	(901)	(2,479)	(3,380)
At 31 December 2001	2,031	3,060	5,091
Net Book Value			
At 31 December 2001	838	2,674	3,512
At 31 December 2000	1,918	4,144	6,062

14. INTANGIBLE ASSETS**The Group**

	Trademarks
	HK\$'000
Cost	
At 1 January 2001	-
Expenditure during the year	935
At 31 December 2001	935

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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14. INTANGIBLE ASSETS (CONT'D)

The Group (cont'd)

	Trademarks HK\$'000
Amortisation and Impairment Losses	
At 1 January 2001	–
Charge for the year	94
Impairment losses	335
At 31 December 2001	429
Net Book Value	
At 31 December 2001	506
At 31 December 2000	–

The amortisation charge for the year is included in “administrative expenses” in the consolidated profit and loss account.

15. INTERESTS IN SUBSIDIARIES

	Note	The Company	
		2001 HK\$'000	2000 HK\$'000
Long-Term:			
Unlisted shares, at cost		220,860	220,860
Less:			
Impairment losses			
At 1 January		53,206	–
Charge to profit and loss account		14,798	53,206
At 31 December		68,004	53,206
Loans owing to subsidiaries		152,856 (11,902)	167,654 (11,902)
		140,954	155,752
Current:			
Amounts owing by subsidiaries	19	12,577	11,713

The amounts owing by subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

15. INTERESTS IN SUBSIDIARIES (CONT'D)

Details of the Group's significant interests in subsidiaries as at 31 December 2001 are as follows:

Company Name/ Principal Activity	Place of Incorporation and Operation	Particulars of Issued and Paid Up Capital	Group's Effective Holding	Proportion of Equity Interest	
				Held by Company	Held by Subsidiary
			%	%	%
Principal direct and indirect subsidiaries					
SWAN Holdings Limited (Investment holding)	Bermuda	33,345,333 shares of US\$1 each	85	85	–
SWAN Inc. (Investment holding and provision of hospitality related services)	United States of America	10,000,000 common stocks of US\$0.01 each	85	–	100
Sceptre Hospitality Resources Inc. (Provision of reservation system services)	United States of America	100 common stocks of US\$0.01 each	85	–	100
Swan Risk Services Ltd. (Provision of risk management services)	Bermuda	120,000 shares of US\$1 each	85	–	100

16. AFFILIATED COMPANIES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-current				
Amounts owing by:				
Holding company				
– interest free	–	734	–	734
Other affiliated companies				
– interest bearing	–	12,527	–	12,527
– interest free	–	3,683	–	3,683
	–	16,944	–	16,944
Amounts owing to:				
Other affiliated companies				
– interest free	–	13,224	–	2,701

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31 December 2001

16. AFFILIATED COMPANIES (CONT'D)

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Current				
Amounts owing by:				
Holding company				
– interest free	1,466	–	1,466	–
Other affiliated companies				
– interest free	16,450	–	612	–
	<u>17,916</u>	<u>–</u>	<u>2,078</u>	<u>–</u>
Amounts owing to:				
Other affiliated companies				
– interest free	2,589	–	2,589	–

The amounts owing by/(to) affiliated companies are unsecured and have no fixed terms of repayment. In respect of interest bearing amounts for 2000, interest was charged at rate of 6% per annum.

The Directors consider the ultimate holding company at 31 December 2001 to be Hong Leong Investment Holdings Pte. Ltd., incorporated in the Republic of Singapore. Other affiliated companies comprise subsidiaries of the holding companies.

17. OTHER FINANCIAL ASSETS (NON-CURRENT)

	The Group	
	2001 HK\$'000	2000 HK\$'000
Investment securities		
– unlisted	662	–

18. OTHER FINANCIAL ASSETS (CURRENT)

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Other investments				
Equity securities				
– listed outside Hong Kong	18,918	17,217	18,918	17,217
Other securities				
– unlisted	38,960	45,176	38,960	45,176
	<u>57,878</u>	<u>62,393</u>	<u>57,878</u>	<u>62,393</u>
Market value at 31 December:				
Equity securities				
– listed outside Hong Kong	18,918	17,217	18,918	17,217

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables less provision (Note 20)	6,722	7,134	163	36
Other receivables, deposits and prepayments	8,646	13,286	7,853	13,161
Amounts owing by subsidiaries (Note 15)	-	-	12,577	11,713
Amounts owing by affiliated companies (Note 16)	17,916	-	2,078	-
	33,284	20,420	22,671	24,910

All of the trade and other receivables, apart from those mentioned in notes 15 and 16, are expected to be recovered within one year.

20. TRADE RECEIVABLES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables	6,784	7,134	163	36
Less				
Provision for doubtful receivables				
At 1 January	-	-	-	-
Provision made during the year	(62)	-	-	-
At 31 December	(62)	-	-	-
	6,722	7,134	163	36

The aging analysis of trade receivables (net of provision for doubtful receivables) is as follows:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Current	6,559	5,169	-	36
1 to 3 months overdue	163	1,739	163	-
More than 3 months overdue but less than 12 months overdue	-	226	-	-
	6,722	7,134	163	36

Debts are due within 1 month from the date of billing. However, debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

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31 December 2001

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade payables	4,024	6,388	12	–
Other payables and accrued charges	32,334	39,935	8,237	34,616
Amount owing to affiliated companies (Note 16)	2,589	–	2,589	–
	38,947	46,323	10,838	34,616

All of the trade and other payables are expected to be settled within one year.

All trade payables are due within 1 month or on demand.

22. DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1 January	324	216,281	324	686
Less:				
Exchange difference	(21)	(23)	(21)	(23)
Transfer from/(to)				
profit and loss account (Note 8)	224	(339)	224	(339)
Balances of subsidiaries disposed of	–	(215,595)	–	–
At 31 December	527	324	527	324

(b) Major components of deferred tax of the Group and the Company are set out below:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Deferred tax liability in respect of timing differences relating to fixed assets, unrealised gain on foreign exchange swap transaction and other items	527	324	527	324

There is no significant deferred tax liability not provided for.

23. SHARE CAPITAL

	The Company	
	2001 HK\$'000	2000 HK\$'000
Authorised:		
2,720,615,042 (2000: 2,720,615,042) ordinary shares of HK\$1.00 each	2,720,615	2,720,615
Issued and fully paid:		
At 1 January		
– 383,125,524 (2000: 2,025,188,100) ordinary shares of HK\$1.00 each	383,126	2,025,188
Issue of Nil (2000: 39,383,934) ordinary shares of HK\$1.00 each at HK\$2.04 per share pursuant to a scrip dividend with option for cash	–	39,384
Issue of Nil (2000: 80,000) ordinary shares of HK\$1.00 each at HK\$2.24 per share under the 1997 Executive Share Option Scheme	–	80
Issue of Nil (2000: 70,220,000) ordinary shares of HK\$1.00 each at HK\$1.00 per share under the 1997 Executive Share Option Scheme	–	70,220
Share buyback of Nil (2000: 468,000) ordinary shares of HK\$1.00 each	–	(468)
Issue of Nil (2000: 5,528,106,448) ordinary shares of HK\$1.00 each pursuant to the bonus issue of 2,590 bonus shares for every 1,000 shares held on 21 August 2000	–	5,528,107
Reduction in par value of Nil (2000: 7,662,510,482) ordinary shares from HK\$1.00 each to HK\$0.05 each	–	(7,279,385)
Consolidation of Nil (2000: 7,662,510,482) ordinary shares of HK\$0.05 each to 383,125,524 ordinary shares of HK\$1.00 each on the basis of every 20 shares of HK\$0.05 each being consolidated into 1 consolidated share of HK\$1.00 each	–	–
At 31 December		
– 383,125,524 (2000: 383,125,524) ordinary shares of HK\$1.00 each	383,126	383,126

An Executive Share Option Scheme (the "1997 Scheme") for executives and/or employees (including the executive directors) of the Company and its subsidiaries was adopted by the Company on 11 June 1997. Under the 1997 Scheme, the maximum number of shares that may be granted by the Directors shall not exceed 10% of the share capital of the Company in issue on the date of granting any option. The subscription price of shares under the Scheme will be equivalent to 80% of the average of the last dealt prices of shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the option or the nominal value of the shares, whichever is greater.

Throughout the financial year, no share option was granted and outstanding.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 December 2001

24. RESERVES

	Share Premium	Investment Properties Revaluation Reserve	Other Reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group				
At 1 January 2000				
– As previously reported	3,518,470	88,248	2,060,818	5,667,536
– Prior period adjustment in respect of dividends proposed	–	–	121,511	121,511
– As restated	3,518,470	88,248	2,182,329	5,789,047
Dividends approved in respect of the previous financial year (Note 10(b))	–	–	(121,483)	(121,483)
Profit for the year, as previously reported	–	–	58,260	58,260
– Prior period adjustment arising from change in accounting policy for goodwill	–	–	(31,126)	(31,126)
Profit for the year, as restated	–	–	27,134	27,134
Realised revaluation reserve transferred to profit and loss account	–	(88,248)	–	(88,248)
Reserve arising on scrip dividends	–	–	40,959	40,959
Premium on shares issued during the year	99	–	–	99
Share buyback during the year	–	–	(1,058)	(1,058)
Capital redemption reserve arising from share buyback	–	–	468	468
Bonus issue during the year	(3,518,569)	–	(2,009,538)	(5,528,107)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	526	526
Goodwill on consolidation realised on disposal of subsidiaries	–	–	76,596	76,596
At 31 December 2000 (restated)	–	–	195,933	195,933

24. RESERVES (CONT'D)

	Share Premium	Investment Properties Revaluation Reserve	Other Reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group				
At 1 January 2001				
– As previously reported	–	–	188,270	188,270
– Prior period adjustment in respect of dividends proposed (Note 12(a))	–	–	7,663	7,663
– As restated	–	–	195,933	195,933
Dividends approved in respect of the previous financial year (Note 10(b))	–	–	(7,663)	(7,663)
Loss for the year	–	–	(35,665)	(35,665)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	(198)	(198)
At 31 December 2001	–	–	152,407	152,407
The Company				
At 1 January 2000				
– As previously reported	3,518,470	–	1,947,452	5,465,922
– Prior period adjustment in respect of dividends	–	–	121,511	121,511
– As restated	3,518,470	–	2,068,963	5,587,433
Dividends approved in respect of the previous financial year (Note 10(b))	–	–	(121,483)	(121,483)
Profit for the year	–	–	408,500	408,500
Reserve arising on scrip dividends	–	–	40,959	40,959
Premium on shares issued during the year	99	–	–	99
Share buyback during the year	–	–	(1,058)	(1,058)
Capital redemption reserve arising from share buyback	–	–	468	468
Bonus issue during the year	(3,518,569)	–	(2,009,538)	(5,528,107)
Realisation of exchange differences on foreign contracts entered into to hedge against investment in foreign subsidiaries, on disposal of the subsidiaries	–	–	(201,537)	(201,537)
At 31 December 2000 (as restated)	–	–	185,274	185,274

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 December 2001

24. RESERVES (CONT'D)

	Share Premium	Other Reserves	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001			
– As previously reported	–	177,611	177,611
– Prior period adjustment in respect of dividends (Note 12(a))	–	7,663	7,663
– As restated	–	185,274	185,274
Dividends approved in respect of the previous financial year (Note 10(b))	–	(7,663)	(7,663)
Loss for the year	–	(34,927)	(34,927)
At 31 December 2001	–	142,684	142,684

Under Cayman Islands law, the Company has reserves available for distribution to shareholders of HK\$142,684,000 (2000: HK\$185,274,000).

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Operating (loss)/profit	(38,121)	19,956
Add/(Less):		
Interest income	(22,897)	(145,404)
Interest expense	16	4,783
Depreciation charges	3,568	2,788
Profit on sale of fixed assets	(714)	(194)
Amortisation of intangible assets	94	–
Impairment losses:		
– fixed assets	2,477	–
– intangible assets	335	–
– goodwill arising on consolidation	–	31,126
Fixed assets written off	959	–
Profit on sale of other securities	–	(430)
Net unrealised loss on stating securities at fair value	4,515	5,481
	(11,647)	(101,850)
Balance carried forward	(49,768)	(81,894)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(a) Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities (cont'd):

	The Group	
	2001 HK\$'000	2000 HK\$'000
Balance brought forward	(49,768)	(81,894)
(Increase)/Decrease in working capital		
Trade receivables	412	(22,978)
Other receivables, deposits and prepayments	4,640	(57)
Trade payables	(2,364)	(24,759)
Rental deposits	-	(330)
Other payables	(7,601)	132,732
Affiliated companies	(15,327)	-
	(20,240)	84,608
Net cash (outflow)/inflow from operating activities	(70,008)	2,714

(b) Analysis of changes in financing during 2000:

	Share Capital (including premium)	Bank Loans, Bonds and Finance Leases	Affiliated Companies	Minority Interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	5,543,658	9,790,892	2,275	7,865,160
Cash flow from financing	70,399	-	(5,995)	38,974
Capital reduction of shares	(7,279,385)	-	-	-
Shares issued				
- scrip dividend	39,384	-	-	-
- bonus issue capitalised from other reserves	2,009,538	-	-	-
Share buyback	(468)	-	-	-
Disposal of subsidiaries	-	(9,790,892)	-	(7,863,639)
Others	-	-	-	(10,859)
At 31 December 2000	383,126	-	(3,720)	29,636
Cash flow from financing	-	-	3,720	-
Share of loss for the year	-	-	-	(2,626)
Exchange difference	-	-	-	(42)
At 31 December 2001	383,126	-	-	26,968

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 December 2001

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(c) Purchase of subsidiaries – net assets acquired:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Current assets	–	7,129
Current liabilities	–	(5,810)
Goodwill on consolidation	–	1,319
	–	36,618
Satisfied by: cash consideration	–	37,937

The subsidiaries acquired by the Company in 2000 did not contribute to the Group's net operating cash flows. In addition, these subsidiaries did not make any payments in respect of the net returns on investments and servicing of finance nor engage in investing activities.

(d) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Cash consideration	–	37,937
Cash and cash equivalents acquired	–	–
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	–	37,937

(e) Disposal of subsidiaries – net assets disposed of:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Non-current assets	–	23,728,810
Current assets	–	2,721,314
Current liabilities	–	(3,525,698)
Non-current liabilities	–	(8,949,090)
Minority interests	–	(7,863,639)
Goodwill and other reserves	–	(11,652)
	–	6,100,045
Satisfied by: cash received	–	6,100,045

Subsidiaries disposed of in 2000 contributed HK\$7,301,000 to the Group's net operating cash flows, paid HK\$4,783,000 in respect of the net returns on investments and servicing of finance, paid HK\$Nil in respect of taxation and utilised HK\$464,000 for investing activities.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(f) Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Cash consideration	-	6,100,045
Cash and cash equivalents disposed of	-	(1,664,597)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	-	4,435,448

26. MATERIAL RELATED PARTY TRANSACTIONS

During the year, in addition to transaction set out in note 7, there were the following material related party transactions:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Pricing determined on agreed terms :				
- rental expenses paid/ payable to affiliated companies	1,370	256	1,370	256
- sale of fixed assets to affiliated companies	1,020	2,128	1,020	2,128
- income received/ receivable from affiliated companies for rental of equipment	207	504	207	504
- purchase of a subsidiary from an affiliated company	-	37,937	-	-
- interest income received/ receivable from an affiliated company	433	731	433	731
- income from provision of hospitality related services	27,476	-	502	-
- income from provision of accounting services	3,898	-	-	-
- reimbursement of expenses from affiliated companies	3,002	-	-	-
- others	202	-	202	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31 December 2001

27. COMMITMENTS

As at 31 December 2001, the Group is committed to purchase foreign currencies totalling HK\$285,460,000 (2000: HK\$267,556,700) and sell foreign currencies totalling HK\$284,626,000 (2000: HK\$255,288,554) under certain forward foreign exchange contracts entered into in the normal course of business.

28. DIRECTORS' REMUNERATION

(i) The aggregate amount of the Directors' and five highest paid individuals' emoluments for the year are as follows:

	Directors		Employees	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Fees	2,379	4,926	-	-
Other emoluments:				
- Basic salaries, allowances and other benefits in kind	2,194	8,680	-	-
- Pension contributions	50	74	-	-
- Discretionary bonus	261	15,944	-	-
	4,884	29,624	-	-

The five (2000: five) highest paid individuals are Directors of the Company and the details of their remuneration are disclosed in the Directors' emoluments.

Included in the fees of HK\$2,379,000 (2000: HK\$4,926,000) above, are fees of HK\$629,000 (2000: HK\$772,000) paid to independent non-executive Directors during the year.

(ii) The number of Directors and the employees included in the five highest paid individuals whose emoluments fall within the following bands are as follows:

	Number of Directors		Employees	
	2001	2000	2001	2000
HK\$Nil - HK\$1,000,000	10	7	-	-
HK\$1,000,001 - HK\$1,500,000	-	-	-	-
HK\$1,500,001 - HK\$2,000,000	1	-	-	-
HK\$2,000,001 - HK\$2,500,000	-	2	-	-
HK\$2,500,001 - HK\$3,000,000	-	1	-	-
HK\$3,000,001 - HK\$3,500,000	-	1	-	-
HK\$3,500,001 - HK\$4,000,000	-	-	-	-
HK\$4,000,001 - HK\$4,500,000	-	1	-	-
HK\$4,500,001 - HK\$5,000,000	-	-	-	-
HK\$5,000,001 - HK\$5,500,000	-	-	-	-
HK\$5,500,001 - HK\$6,000,000	-	1	-	-
HK\$6,000,001 - HK\$6,500,000	-	-	-	-
HK\$6,500,001 - HK\$7,000,000	-	-	-	-
HK\$7,000,001 - HK\$7,500,000	-	1	-	-
	11	14	-	-

No Directors have waived emoluments in respect of the years ended 31 December 2001 and 31 December 2000.

29. PENSION SCHEMES

In United States, the Group operates a defined contribution scheme in which the Group matches a portion of each participating employee's contribution, subject to certain limits.

The total pension cost charged to the profit and loss account of the Group was HK\$5,683,000 (2000: HK\$Nil).

30. SUBSEQUENT EVENT

In February 2002, the Group initiated a restructuring of its operations in the United States and arising therefrom restructuring expense of approximately HK\$17,200,000 is expected to be incurred.

31. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for dividends and goodwill, details of which are set out in note 12.