

# Notes to Financial Statements

31st December, 2001

## 1. CORPORATE INFORMATION

The registered office of the Company is located at the office of Caledonian Bank & Trust Limited, P.O. Box 1043, George Town, Grand Cayman, the Cayman Islands, British West Indies.

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

- Provision of travel and travel-related services
- Property development and agency services
- Hotel investment and management
- Provision of financial services and securities broking

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- SSAP 14 (Revised): “Leases”
- SSAP 18 (Revised): “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

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These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 26 and 35 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements below. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 32 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements and has had no impact on the preparation of these financial statements.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

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

### **Basis of consolidation**

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

### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

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A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### **Jointly-controlled entity**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting less any impairment losses.

### **Associates**

An associate is a company, not being a subsidiary or jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of associates which was not previously eliminated or recognised in reserves, is included as part of the Group's interests in associates.

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The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

### **Goodwill**

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1st January, 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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### **Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

In prior years, negative goodwill arising on acquisitions was credited to reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1st January, 2001, to remain credited to reserves. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to reserves at the time of acquisition is written back and included in the calculation of gain or loss on disposal.

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## Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## Fixed assets and depreciation

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

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Land held under long term leases	Over the remaining lease terms
Buildings	2% to 5%
Office furniture, fixtures and equipment	20% to 33-1/3%
Hotel plant and equipment	5% to 20%
Motor vehicles	20%

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

### **Investment properties**

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

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

### **Properties under development**

Properties under development are stated at cost which comprises land cost and development expenditure, less impairment losses.

### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.



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## Long term investments

Long term investments in listed and unlisted equity securities and other unlisted securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

## Short term investments

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

## Inventories

Inventories, principally comprising foodstuffs, liquor and other consumables, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

## Properties held for sale

Properties held for sale, consisting of completed properties and properties under development intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

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### Deferred tax

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

### Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, associates and jointly-controlled entities are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange realignment reserve.

### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "prior scheme") for those employees who were eligible to participate in this scheme. The prior scheme operated in a similar way to the MPF Scheme, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer contributions.

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## Related parties

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

## Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) income from tour services is recognised upon the departure date of each tour;
- (b) income from sales of air tickets and hotel bookings is recognised when the related tickets are issued and hotel bookings confirmed, respectively;
- (c) income from hotel operations is recognised as the related services are performed;
- (d) income from the sale of properties and in the case of pre-sales of properties, proceeds from pre-sales are adjusted to reflect the stage of completion, are recognised on completion of binding sale agreements;
- (e) commission and visa income are recognised in the period in which the services are rendered;
- (f) rental income is recognised on the straight-line basis over the lease terms;
- (g) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (h) dividends are recognised when the shareholders' right to receive payment has been established.

## Cash equivalents

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

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### 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) The travel and travel-related services segment provides outbound tour services, booking of air tickets and hotel services and other travel-related services;
- (b) The property development and agency services segment comprises the development and sales of properties and the provision of property agency services;
- (c) The hotel investment and management segment comprises the operation of hotels and the provision of hotel management services;
- (d) The financial services segment comprises the provision of financial services and securities broking; and
- (e) The corporate and other businesses segment includes rental income and general corporate expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers/businesses, and assets are attributed to the segments based on the location of the assets.

Intersegment sales are transacted with reference to the prevailing market rates.

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## (a) Business segments

The following tables present revenue, profit/(loss), and certain asset, liability and expenditure information for the Group's business segments.

	Travel and travel-related services		Property development and agency services		Hotel investment and management		Financial services		Corporate and other businesses		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	548,081	519,521	149,585	213,788	24,578	35,998	1,245	—	842	2,120	—	—	724,331	771,427
Intersegment sales	—	—	—	—	—	—	—	—	4,646	4,148	(4,646)	(4,148)	—	—
Other revenue	5,858	5,347	3,264	2,700	465	—	4,314	—	—	—	—	—	13,901	8,047
<b>Total revenue</b>	<b>553,939</b>	<b>524,868</b>	<b>152,849</b>	<b>216,488</b>	<b>25,043</b>	<b>35,998</b>	<b>5,559</b>	<b>—</b>	<b>5,488</b>	<b>6,268</b>	<b>(4,646)</b>	<b>(4,148)</b>	<b>738,232</b>	<b>779,474</b>
Segment results	4,341	(9,755)	40,630	42,154	(5,835)	(2,355)	(1,657)	—	(123,244)	3,947	(290)	(753)	(86,055)	33,238
Interest and dividend income													4,419	4,197
Unallocated expenses													(14,239)	(15,000)
Profit/(loss) from operating activities													(95,875)	22,435
Finance costs													(7,696)	(9,763)
Share of profits/(losses) of associates	1	(3)	(3)	8	1,131	—	—	—	(3,208)	(6,300)	—	—	(2,079)	(6,295)
Share of losses of jointly-controlled entities	(323)	(384)	(198)	(191)	—	—	—	—	—	—	—	—	(521)	(575)
<b>Profit/(loss) before tax</b>													<b>(106,171)</b>	<b>5,802</b>
Tax													(3,851)	(7,455)
<b>Loss after tax</b>													<b>(110,022)</b>	<b>(1,653)</b>
Minority interests													(15,212)	(16,393)
<b>Net loss from ordinary activities attributable to shareholders</b>													<b>(125,234)</b>	<b>(18,046)</b>
Assets:														
Segment assets	172,116	117,117	387,756	332,918	96,808	94,911	67,411	60,820	393,651	453,108	(494,527)	(330,328)	623,215	728,546
Interests in associates	78	77	127	107	95,191	—	—	—	(3,267)	(59)	—	—	92,129	125
Interests in jointly-controlled entities	1,645	1,929	10,379	21,851	—	—	—	—	—	—	—	—	12,024	23,780
Unallocated assets	—	—	—	—	—	—	—	—	—	—	—	—	20,817	9,203
<b>Total assets</b>													<b>748,185</b>	<b>761,654</b>
Liabilities:														
Segment liabilities	286,436	252,171	119,913	131,185	67,448	67,584	11,510	10,946	184,012	73,920	(494,527)	(330,328)	174,792	205,478
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	—	—	185,167	163,594
<b>Total liabilities</b>													<b>359,959</b>	<b>369,072</b>
Other segment information:														
Capital expenditure	453	1,668	548	738	14,588	1,636	81	—	437	577	—	—	16,107	4,619
Depreciation	1,323	2,112	1,418	2,698	2,239	2,409	28	—	3,833	3,967	—	—	8,841	11,186
Amortisation	—	—	—	—	781	—	—	—	—	—	—	—	781	—
Impairment losses recognised in profit and loss account	1,000	—	—	—	—	—	339	—	119,108	—	—	—	120,447	—
Revaluation deficit of investment properties recognised in profit and loss account	—	—	—	—	—	—	—	—	4,086	—	—	—	4,086	—

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### (b) Geographical segments

The following tables present revenue, profit/(loss), and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong SAR		Elsewhere in the PRC		Australia		Other Asian Countries		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	<b>540,342</b>	512,357	<b>159,230</b>	221,949	<b>23,814</b>	35,864	<b>945</b>	1,257	—	—	<b>724,331</b>	771,427
Segment results	<b>(120,764)</b>	(6,365)	<b>40,596</b>	41,590	<b>(5,932)</b>	(997)	<b>45</b>	(990)	—	—	<b>(86,055)</b>	33,238
	Hong Kong SAR		Elsewhere in the PRC		Australia		Other Asian Countries		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:												
Segment assets	<b>243,095</b>	383,937	<b>399,052</b>	358,124	<b>84,582</b>	82,625	<b>113,133</b>	18,155	<b>(91,677)</b>	(81,187)	<b>748,185</b>	761,654
Expenditure information:												
Capital expenditure	<b>957</b>	2,241	<b>553</b>	742	<b>14,498</b>	1,636	<b>99</b>	—	—	—	<b>16,107</b>	4,619

## 5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of services rendered, hotel income, agency fee income, proceeds from the sale of properties (in the case of pre-sale of properties, proceeds from pre-sale are adjusted to reflect the stage of construction) and income from financial services and securities broking, after eliminating intra-group transactions.

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

	2001	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover:		
Travel and travel-related services	<b>548,081</b>	519,521
Property development and agency services	<b>149,585</b>	213,788
Hotel investment and management	<b>24,578</b>	35,998
Financial services	<b>1,245</b>	—
Others	<b>842</b>	2,120
	<b>724,331</b>	771,427

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	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Other revenue:		
Interest income	4,066	4,197
Income arising from deposits on properties forfeited by purchasers	896	1,467
Visa income	1,430	1,283
Commission income	3,360	3,145
Refund of employer's provident fund contributions	3,854	—
Dividend from unlisted long term investments	353	—
Others	3,896	2,152
	<u>17,855</u>	<u>12,244</u>
Gains:		
Gain on disposal of land and buildings	465	—
	<u>18,320</u>	<u>12,244</u>

### 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cost of inventories sold	5,744	3,719
Cost of services provided	488,457	480,823
Cost of properties sold	77,854	126,709
Depreciation	8,841	11,186
Goodwill amortisation*	781	—
Minimum lease payments under operating leases in respect of land and buildings	11,461	11,353
Auditors' remuneration	898	955
Staff costs (including directors' remuneration, note 8):		
Wages and salaries	43,812	38,909
Pension contributions	1,959	1,267
Less: forfeited contributions	(473)	(667)
Net pension contributions	<u>1,486</u>	<u>600</u>
Total staff costs	<u>45,298</u>	<u>39,509</u>

## Notes to Financial Statements

31st December, 2001

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unrealised loss on short term investments in securities	103	—
Revaluation deficit of investment properties	4,086	—
Provision for impairment of goodwill	16,996	—
Provision for impairment of land and buildings	102,112	—
Provision for impairment of properties held for sale*	1,000	—
Provision for impairment of long term investments*	339	—
Loss on disposal of other fixed assets	50	811
Gross and net rental income	(1,020)	(2,120)
Gain on disposal of long term investments	—	(277)
Gain on disposal of land and buildings	(465)	—
Foreign exchange gains, net	(2,699)	(329)
Dividend from unlisted long term investments	(353)	—
Interest income	<u>(4,066)</u>	<u>(4,197)</u>

\* The goodwill amortisation, provisions for impairment of properties held for sales and long term investments are included in "Administrative expenses" on the face of the consolidated profit and loss account.

At 31st December, 2001, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2000: Nil).

### 7. FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	7,641	9,656
Interest on other loans	—	4
Interest on finance leases	55	103
Total interest	<u>7,696</u>	<u>9,763</u>



## Notes to Financial Statements

31st December, 2001

### 8. DIRECTORS' REMUNERATION

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive Director	5	7
Non-Executive Directors	35	33
Other emoluments:		
Executive Director:		
Basic salaries, housing, other allowances and benefits in kind	1,200	1,623
Pension contributions	30	40
Bonuses paid and payable	—	125
Non-Executive Directors:		
Other allowances	120	120
	<u>1,390</u>	<u>1,948</u>

The number of directors whose emoluments fell within the following bands is as follows:

	<b>2001</b>	2000
	<b>Number of Directors</b>	Number of Directors
Nil — HK\$1,000,000	5	6
HK\$1,000,001 — HK\$1,500,000	1	1
	<u>6</u>	<u>7</u>

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

## Notes to Financial Statements

31st December, 2001

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2000: two) Director, details of whose remuneration are set out in note 8 to the financial statements above. The remuneration of the remaining four (2000: three) non-director, highest paid employees fell within the band of Nil — HK\$1,000,000 and is analysed below:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing, other allowances and benefits in kind	2,456	1,759
Pension contributions	89	77
	<u>2,545</u>	<u>1,836</u>

During the year, no bonuses were paid or payable by the Group to the four non-directors, highest paid employees (2000: Nil).

### 10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2000: Nil).

Taxes on profits assessable elsewhere have been calculated based on existing legislation, interpretations and practices at the rates of tax prevailing in the countries in which the Group operates. The tax charge for the year arose as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Overseas	4,911	7,521
Overprovision in prior years	(9)	(66)
	<u>4,902</u>	<u>7,455</u>
Share of tax credit of associates	<u>(1,051)</u>	<u>—</u>
	<u>3,851</u>	<u>7,455</u>

### 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$113,560,000 (2000: HK\$42,548,000).

## Notes to Financial Statements

31st December, 2001

### 12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders for the year of HK\$125,234,000 (2000: HK\$18,046,000) and on the weighted average of 1,489,437,449 shares (2000: 1,092,112,593 shares) in issue during the year, adjusted to reflect the rights issue during the year.

The diluted loss per share for the years ended 31st December, 2001 and 2000 has not been shown as the warrants outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

### 13. FIXED ASSETS

#### Group

	Office furniture, Land and fixtures and buildings	Hotel plant and equipment	Motor vehicles	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost:					
At beginning of year	273,940	35,063	11,542	3,749	324,294
Additions	8,059	3,168	4,880	—	16,107
Disposals	(8,425)	(2,761)	(5,841)	(435)	(17,462)
Exchange realignment	(3,466)	(355)	(969)	(51)	(4,841)
At 31st December, 2001	<u>270,108</u>	<u>35,115</u>	<u>9,612</u>	<u>3,263</u>	<u>318,098</u>
Accumulated depreciation and impairment:					
At beginning of year	22,704	26,290	8,787	3,236	61,017
Provided during the year	3,489	4,321	911	120	8,841
Impairment during the year recognised in the profit and loss account	102,112	—	—	—	102,112
Disposals	(1,064)	(1,738)	(5,420)	(218)	(8,440)
Exchange realignment	(287)	(120)	(737)	(17)	(1,161)
At 31st December, 2001	<u>126,954</u>	<u>28,753</u>	<u>3,541</u>	<u>3,121</u>	<u>162,369</u>
Net book value:					
At 31st December, 2001	<u>143,154</u>	<u>6,362</u>	<u>6,071</u>	<u>142</u>	<u>155,729</u>
At 31st December, 2000	<u>251,236</u>	<u>8,773</u>	<u>2,755</u>	<u>513</u>	<u>263,277</u>

## Notes to Financial Statements

31st December, 2001

The land and buildings, at cost, included above, are held on the following terms:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Freehold, overseas	<b>45,647</b>	50,016
Long term leases, Hong Kong	<b>194,312</b>	194,312
Long term leases, mainland China	<b>30,149</b>	29,612
	<b><u>270,108</u></b>	<u>273,940</u>

The net book value of assets held under finance leases at 31st December, 2001, included in the total amount of motor vehicles and office equipment, amounted to HK\$375,000 (2000: HK\$1,243,000).

Certain fixed assets with an aggregate net book value of HK\$126,954,000 (2000: HK\$231,501,000) have been pledged to secure banking facilities granted to the Group (note 28).

### Company

	<b>Office furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost:			
At beginning of year	<b>6,189</b>	<b>2,067</b>	<b>8,256</b>
Additions	<b>437</b>	<b>—</b>	<b>437</b>
At 31st December, 2001	<b><u>6,626</u></b>	<b><u>2,067</u></b>	<b><u>8,693</u></b>
Accumulated depreciation:			
At beginning of year	<b>3,247</b>	<b>2,067</b>	<b>5,314</b>
Provided during the year	<b>2,023</b>	<b>—</b>	<b>2,023</b>
At 31st December, 2001	<b><u>5,270</u></b>	<b><u>2,067</u></b>	<b><u>7,337</u></b>
Net book value:			
At 31st December, 2001	<b><u>1,356</u></b>	<b><u>—</u></b>	<b><u>1,356</u></b>
At 31st December, 2000	<b><u>2,942</u></b>	<b><u>—</u></b>	<b><u>2,942</u></b>

The net book value of assets held under finance leases at 31st December, 2001, included in the total amount of office equipment, amounted to HK\$267,000 (2000: HK\$842,000).

## Notes to Financial Statements

31st December, 2001

### 14. INVESTMENT PROPERTIES

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<i>HK\$'000</i>
At beginning of year	<b>14,591</b>	29,182
Transfer to fixed assets	—	(14,591)
Revaluation deficit charged to the profit and loss account	<b>(4,086)</b>	—
	<u><b>10,505</b></u>	<u>14,591</u>
At end of year	<u><b>10,505</b></u>	<u>14,591</u>

The investment properties are situated in Hong Kong and are held under a long term lease. At 31st December, 2001, the investment properties were revalued on an open market existing use basis by RHL Appraisal Limited, an independent property valuer, at HK\$10,505,000. The investment properties are leased to MUI Enterprises Limited, a related company of the Group, further details of which are also included in notes 35 and 39.

The above investment properties have been pledged to a bank to secure banking facilities granted to the Group (note 28).

Last year, a portion of the investment properties were leased to Morning Star Financial Services Limited which was acquired by the Group. Accordingly, that portion of investment properties were transferred from investment properties to fixed assets.

Further particulars of the Group's investment properties are included on page 92.

### 15. PROPERTIES UNDER DEVELOPMENT

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<i>HK\$'000</i>
At beginning of year	<b>32,163</b>	30,676
Additions	<b>747</b>	1,487
	<u><b>32,910</b></u>	<u>32,163</u>
Provision for impairment	<b>(29,104)</b>	(29,104)
At end of year	<u><b>3,806</b></u>	<u>3,059</u>

## Notes to Financial Statements

31st December, 2001

### 16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	32,040	31,902	—	—
Due from jointly-controlled entities	—	—	1,473	1,468
Due to jointly-controlled entities	(12,700)	(806)	—	—
	<b>19,340</b>	31,096	<b>1,473</b>	1,468
Provision for impairment	(7,316)	(7,316)	—	—
	<b>12,024</b>	23,780	<b>1,473</b>	1,468

The balances with the jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Owner-ship interest %	Voting power %	Profit sharing %	Principal activities
Suzhou Huaxing Real Estate Development Company, Limited	Corporate	People's Republic of China	50	50	50	Property development
Beijing Morning Star-New Ark International Travel Service Company, Limited	Corporate	People's Republic of China	49	49	49	Provision of travel services

The jointly-controlled entities are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

## Notes to Financial Statements

31st December, 2001

### 17. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	—	—	118,757	23,405
Share of net assets/(liabilities)	91,547	(434)	—	—
Due from associates	1,181	1,159	1,096	293
Due to associates	(599)	(600)	—	—
	<u>92,129</u>	<u>125</u>	<u>119,853</u>	<u>23,698</u>
Provision for impairment	—	—	(24,186)	(23,405)
	<u>92,129</u>	<u>125</u>	<u>95,667</u>	<u>293</u>

Goodwill amounting to HK\$781,000 arising on the acquisition of an associate during the year was amortised in full to the profit and loss account.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group		Principal activities
			2001	2000	
Plaza on Hyde Park Limited*	Corporate	United Kingdom	40	—	Hotel investment
Way Bright Investment Limited	Corporate	Hong Kong	50	50	Provision of property agency services
Zhaodaola Limited*	Corporate	Bermuda/ People's Republic of China	24	24	Operating Internet portals

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

## Notes to Financial Statements

31st December, 2001

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all associates would, in the opinion of the Directors, result in particulars of excessive length.

Extracts of the financial statements of Plaza on Hyde Park Limited for the year ended 31st December, 2001, are as follows:

	<b>HK\$'000</b>
Non-current assets	570,561
Current assets	12,462
Current liabilities	69,211
Non-current liabilities	205,173
Income	86,958
Net profit for the year	<u>13,356</u>

### 18. INVESTMENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Long term investments:				
Listed equity investments in				
Hong Kong, at cost	1,255	1,255	—	—
Provision for impairment	(339)	—	—	—
	<u>916</u>	<u>1,255</u>	<u>—</u>	<u>—</u>
Unlisted equity investments,				
at cost	7,671	7,671	—	—
Unlisted investment in convertible				
cumulative preferred stock,				
at cost	12,056	—	12,056	—
	<u>19,727</u>	<u>7,671</u>	<u>12,056</u>	<u>—</u>
	<u>20,643</u>	<u>8,926</u>	<u>12,056</u>	<u>—</u>
Market value of listed				
investments	<u>916</u>	<u>1,255</u>	<u>—</u>	<u>—</u>
Short term investments:				
Listed equity investments in				
Hong Kong, at market value	<u>174</u>	<u>277</u>	<u>—</u>	<u>—</u>



## Notes to Financial Statements

31st December, 2001

### 19. OTHER ASSETS

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Deposit with The Stock Exchange of Hong Kong Limited	<b>300</b>	300
Admission fees paid to Hong Kong Securities Clearing Company Limited	<b>150</b>	150
Contributions to Hong Kong Securities Clearing Company Limited Guarantee Fund	<b>150</b>	150
	<u><b>600</b></u>	<u>600</u>

### 20. PLEDGED BANK BALANCES AND TIME DEPOSITS

The non-current pledged bank balances and time deposits are mainly pledged to certain banks to secure mortgage loan facilities granted to purchasers of properties of Morning Star Villa and Morning Star Plaza.

### 21. BALANCES WITH RELATED COMPANIES

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment, except for a balance due from Morning Star Villa Management Limited which bears interest at 2% above the Hong Kong dollar prime rate per annum. Further details of the transactions with related companies are included in note 39 to the financial statements.

### 22. PROPERTIES HELD FOR SALE

The carrying amount of properties held for sale included in the consolidated balance sheet that was carried at net realisable value was HK\$1,000,000 (2000: HK\$2,000,000).

## Notes to Financial Statements

31st December, 2001

### 23. TRADE RECEIVABLES

The Group grants credit periods of up to thirty days to its trade customers. Details of the aging analysis of trade receivables as at the balance sheet date are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	39,501	63,019
1 - 3 months	3,395	2,361
Over 3 months	832	332
	43,728	65,712

### 24. OTHER RECEIVABLES

	Notes	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Loans to Land Traders Properties and Development Company, Inc. ("Land Traders")	(i)	6,876	7,262	—	—
Interest-bearing loan receivable	(ii)	8,000	—	—	—
Deposits		11,530	31,659	20	20
Sundry debtors and prepayments		10,989	13,651	375	353
		37,395	52,572	395	373

Notes:

- (i) The loans were used by Land Traders to acquire a piece of land on which the Enrico Hotel, a hotel owned by Mansara Holding Company, Inc. ("Mansara"), a 61%-owned subsidiary of the Group, is built, and an adjoining piece of land. They are secured by promissory notes and mortgages over the two pieces of land in favour of Mansara.
- (ii) The loan receivable is secured by listed securities, bears interest at the Hong Kong dollar prime rate plus 1% per annum and is repayable within one year.

## Notes to Financial Statements

31st December, 2001

### 25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	69,345	56,677	71	28
Time deposits	54,957	76,934	—	—
	<u>124,302</u>	<u>133,611</u>	<u>71</u>	<u>28</u>

### 26. FINANCE LEASE PAYABLES

The Group leases certain of its office equipment and a motor vehicle. These leases are classified as finance leases and have remaining lease terms ranging from one to five years.

At 31st December, 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts payable:				
Within one year	321	892	305	814
In the second year	21	325	13	293
In the third to fifth years, inclusive	81	109	77	112
	<u>423</u>	<u>1,326</u>	<u>395</u>	<u>1,219</u>
Total minimum finance lease payments	423	1,326	395	1,219
Future finance charges	(28)	(107)		
	<u>395</u>	<u>1,219</u>		
Total finance lease payables	395	1,219		
Portion classified as current liabilities	(305)	(814)		
	<u>90</u>	<u>405</u>		
Long term portion	90	405		

## Notes to Financial Statements

31st December, 2001

### Company

	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts payable:				
Within one year	293	584	284	529
In the second year	—	293	—	284
Total minimum finance lease payments	293	877	284	813
Future finance charges	(9)	(64)		
Total finance lease payables	284	813		
Portion classified as current liabilities	(284)	(529)		
Long term portion	—	284		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

### 27. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK\$20,392,000 (2000: HK\$28,336,000). Details of the aging analysis of trade payables as at the balance sheet date are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	19,911	24,412
1 - 3 months	320	2,454
Over 3 months	161	1,470
	20,392	28,336

## Notes to Financial Statements

31st December, 2001

### 28. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts, secured	27,807	9,220	6,306	9,220
Bank loans, secured	140,031	120,000	126,000	120,000
	<u>167,838</u>	<u>129,220</u>	<u>132,306</u>	<u>129,220</u>
Bank loans and overdrafts repayable:				
Within one year	140,410	129,220	117,306	129,220
In the second year	12,428	—	—	—
In the third to fifth years, inclusive	15,000	—	15,000	—
	<u>167,838</u>	<u>129,220</u>	<u>132,306</u>	<u>129,220</u>
Portion classified as current liabilities	<u>(140,410)</u>	<u>(129,220)</u>	<u>(117,306)</u>	<u>(129,220)</u>
Long term portion	<u>27,428</u>	<u>—</u>	<u>15,000</u>	<u>—</u>

The bank loans and overdrafts are secured by certain fixed assets and the investment properties of the Group (notes 13 and 14).

### 29. NON-INTEREST-BEARING OTHER BORROWINGS

Non-interest-bearing other borrowings represent short term loans of HK\$16,934,000 (2000: HK\$33,155,000) granted by the minority shareholders of subsidiaries which are unsecured, interest-free and have no fixed terms of repayment.

## Notes to Financial Statements

31st December, 2001

### 30. DEFERRED TAX

The principal components of deferred tax assets/(liabilities) not recognised/(provided for) are as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accelerated depreciation allowances	212	(97)
Tax losses	<u>26,883</u>	<u>24,883</u>
Deferred tax assets	<u>27,095</u>	<u>24,786</u>

### 31. SHARE CAPITAL

	Company	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Shares</b>		
Authorised:		
5,000,000,000 ordinary shares of HK\$0.20 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
2,414,547,555 (2000: 1,379,741,460) ordinary shares of HK\$0.20 each	<u>482,910</u>	<u>275,948</u>

A summary of the movements of the Company's ordinary share capital during the year is as following:

	Notes	Number of shares	<i>HK\$'000</i>
At 1st January, 2000		919,827,640	183,966
Rights issue	(i)	<u>459,913,820</u>	<u>91,982</u>
At 31st December, 2000 and 1st January, 2001		<b>1,379,741,460</b>	<b>275,948</b>
Rights issue	(ii)	<b>413,922,438</b>	<b>82,785</b>
Bonus issue	(iii)	<u>620,883,657</u>	<u>124,177</u>
At 31st December, 2001		<u>2,414,547,555</u>	<u>482,910</u>

## Notes to Financial Statements

31st December, 2001

### Notes:

- (i) On 20th June, 2000, 459,913,820 new shares (the "2000 Rights Shares") of HK\$0.20 each were issued by way of a rights issue on the basis of one 2000 Rights Share for every two existing shares held at an issue price of HK\$0.20 per share for a total cash consideration, before share issue expenses, of approximately HK\$91,982,000. The proceeds of the issue of the 2000 Rights Shares were to provide additional capital for the Group and to finance the Group's acquisition of an associate and a jointly-controlled entity.
- (ii) On 30th October, 2001, 413,922,438 new shares (the "2001 Rights Shares") of HK\$0.20 each were issued by way of a rights issue on the basis of three 2001 Rights Shares for every ten existing shares held at an issue price of HK\$0.20 per share for a total cash consideration, before share issue expenses, of approximately HK\$82,785,000. The proceeds of the issue of the 2001 Rights Shares were used to finance the acquisition of a 40% interest in Plaza on Hyde Park Limited, an associate of the Group.
- (iii) On 30th October, 2001, the Company also completed an issue of bonus shares (the "Bonus Shares") on the basis of three Bonus Shares for every two 2001 Rights Shares subscribed. A total of 620,883,657 Bonus Shares of HK\$0.20 each were issued, credited as fully paid by way of the capitalisation of the Company's share premium account.

### Warrants

As a result of the rights issue completed during the year, the exercise price of the Company's warrants, which were issued on 20th June, 2000 was adjusted from HK\$0.20 per share to HK\$0.19 per share with effect from 6th October, 2001. As at the balance sheet date, the Company had an outstanding amount of HK\$55,189,658 of warrants entitling the registered holders to subscribe in cash at any time on or before 19th June, 2005 for fully paid ordinary shares of HK\$0.20 each of the Company at an exercise price of HK\$0.19 per share. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 290,471,886 additional ordinary shares and proceeds, before share issue expenses, of HK\$55,189,658. The adjusted exercise price of HK\$0.19 is below the nominal value of the Company's ordinary shares of HK\$0.20 each. Pursuant to an ordinary resolution passed by the shareholders of the Company at the extraordinary general meeting held on 5th October, 2001, a new reserve, namely the subscription rights reserve, was set up and an amount of HK\$2,905,000 was transferred from the share premium account to the subscription rights reserve. In any exercise of the Company's warrants at the adjusted exercise price, the difference between the adjusted exercise price of the Company's warrants and the nominal value of the Company's new ordinary shares issuable upon the exercise of such warrants will be treated as paid out of the subscription rights reserve. No warrants were exercised during the year.

## Notes to Financial Statements

31st December, 2001

### 32. RESERVES

Group	Share premium account HK\$'000	Subscription rights reserve HK\$'000	Exchange realignment reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2000	134,005	—	(25,991)	—	(53,751)	54,263
Exchange realignments	—	—	(7,428)	—	—	(7,428)
Share issue expenses	(1,630)	—	—	—	—	(1,630)
Goodwill arising on acquisition of associates	—	—	—	(17,238)	—	(17,238)
Capital reserve arising on acquisition of subsidiaries	—	—	—	164	—	164
Net loss for the year	—	—	—	—	(18,046)	(18,046)
At 31st December, 2000 and beginning of year	<b>132,375</b>	—	<b>(33,419)</b>	<b>(17,074)</b>	<b>(71,797)</b>	<b>10,085</b>
Exchange realignments	—	—	<b>(5,038)</b>	—	—	<b>(5,038)</b>
Share issue expenses	<b>(1,870)</b>	—	—	—	—	<b>(1,870)</b>
Bonus issue	<b>(124,177)</b>	—	—	—	—	<b>(124,177)</b>
Impairment of goodwill	—	—	—	<b>16,996</b>	—	<b>16,996</b>
Net loss for the year	—	—	—	—	<b>(125,234)</b>	<b>(125,234)</b>
Transfer	<b>(2,905)</b>	<b>2,905</b>	—	—	—	—
At 31st December, 2001	<b>3,423</b>	<b>2,905</b>	<b>(38,457)</b>	<b>(78)</b>	<b>(197,031)</b>	<b>(229,238)</b>
Reserves retained by:						
Company and subsidiaries	<b>3,423</b>	<b>2,905</b>	<b>(37,554)</b>	<b>(78)</b>	<b>(187,737)</b>	<b>(219,041)</b>
Associates	—	—	<b>(1,562)</b>	—	<b>(8,413)</b>	<b>(9,975)</b>
Jointly-controlled entities	—	—	<b>659</b>	—	<b>(881)</b>	<b>(222)</b>
At 31st December, 2001	<b>3,423</b>	<b>2,905</b>	<b>(38,457)</b>	<b>(78)</b>	<b>(197,031)</b>	<b>(229,238)</b>
Company and subsidiaries	132,375	—	(33,419)	(17,074)	(64,052)	17,830
Associates	—	—	—	—	(7,385)	(7,385)
Jointly-controlled entities	—	—	—	—	(360)	(360)
At 31st December, 2000	<b>132,375</b>	—	<b>(33,419)</b>	<b>(17,074)</b>	<b>(71,797)</b>	<b>10,085</b>



## Notes to Financial Statements

31st December, 2001

As mentioned in note 31 under the heading of "Warrants", pursuant to an ordinary resolution passed by the shareholders at the extraordinary general meeting of the Company held on 5th October, 2001, an amount of HK\$2,905,000 was transferred from the share premium account to a new reserve, namely the subscription rights reserve. In any exercise of the Company's warrants at the adjusted exercise price as mentioned in note 31, the difference between the adjusted exercise price of the Company's warrants and the nominal value of the Company's new ordinary shares issuable upon the exercise of the Company's warrants will be treated as paid out of the subscription rights reserve.

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1st January, 2001, to remain eliminated against or credited to reserves, respectively.

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against reserves for impairment. As a result, the Group has recognised an impairment of the goodwill previously eliminated against reserves, of HK\$16,996,000 during the year, as detailed in the table below.

The amounts of the goodwill and negative goodwill remaining in reserves, arising from the acquisition of subsidiaries/associates, are as follows:

	<b>Group</b>	
	<b>Goodwill included in goodwill reserve HK\$'000</b>	<b>Negative goodwill included in goodwill reserve HK\$'000</b>
Cost:		
At beginning of year and 31st December, 2001	<u>17,238</u>	<u>(164)</u>
Accumulated impairment:		
At beginning of year	—	—
Impairment provided during the year	<u>16,996</u>	<u>—</u>
At 31st December, 2001	<u>16,996</u>	<u>—</u>
Net amount:		
At 31st December, 2001	<u>242</u>	<u>(164)</u>
At 31st December, 2000	<u>17,238</u>	<u>(164)</u>

## Notes to Financial Statements

31st December, 2001

### Company

	Share premium account <i>HK\$'000</i>	Subscription rights reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2000	134,005	—	(79,742)	54,263
Share issue expenses	(1,630)	—	—	(1,630)
Net loss for the year	—	—	(42,548)	(42,548)
At 31st December, 2000 and at beginning of year	<b>132,375</b>	—	<b>(122,290)</b>	<b>10,085</b>
Share issue expenses	<b>(1,870)</b>	—	—	<b>(1,870)</b>
Bonus issue	<b>(124,177)</b>	—	—	<b>(124,177)</b>
Net loss for the year	—	—	<b>(113,560)</b>	<b>(113,560)</b>
Transfer	<b>(2,905)</b>	<b>2,905</b>	—	—
At 31st December, 2001	<b>3,423</b>	<b>2,905</b>	<b>(235,850)</b>	<b>(229,522)</b>

### 33. INTERESTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	26,569	24,555
Loans to subsidiaries	260,000	260,000
	<b>286,569</b>	284,555
Provision for impairment	<b>(153,902)</b>	(44,902)
	<b>132,667</b>	239,653

## Notes to Financial Statements

31st December, 2001

The loans to subsidiaries are unsecured, bear interest at the Hong Kong dollar prime rate plus 2% per annum and are not repayable within one year. Except for balances due from certain subsidiaries amounting to HK\$9,720,000 and a balance due to a subsidiary amounting to HK\$146,883,000, included in the Company's current assets and liabilities, which bear interest at the Hong Kong dollar prime rate plus 2% per annum, all balances with subsidiaries, included in the Company's current assets and liabilities, are unsecured, interest-free and have no fixed terms of repayments.

Particulars of the principal subsidiaries at the balance sheet date were as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Barilla Pty. Limited	Australia	A\$2	—	69.5	Ordinary	Property holding
Bright Profit Investments Limited	British Virgin Islands/ People's Republic of China	US\$50,000	—	55	Ordinary	Property development
Consing Investment Limited	Hong Kong	HK\$2	—	100	Ordinary	Investment holding
Genuine Gains Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Ordinary	Property investment
Jubilation Properties Limited	British Virgin Islands/ People's Republic of China	US\$50,000	—	55	Ordinary	Property development
Kingpin Assets Limited	British Virgin Islands	US\$2	—	100	Ordinary	Investment holding
Mansara Holding Company, Inc.	Philippines	Peso30,000,000	—	61	Ordinary	Hotel investment

## Notes to Financial Statements

31st December, 2001

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Mansara International Limited	British Virgin Islands/ Philippines	US\$100	—	61	Ordinary	Investment holding
Morning Star Finance Limited	Cayman Islands	HK\$200	100	—	Ordinary	Investment holding
Morning Star Financial Services Limited	Hong Kong	HK\$42,924,000	59.2	—	Ordinary	Investment holding
Morning Star Foreign Exchange Limited	Hong Kong	HK\$300,000	—	100	Ordinary	Money lending
Morning Star Holdings (Australia) Limited	Australia	A\$13,402,501	—	69.5	Ordinary	Investment holding
Morning Star Holdings (Thailand) Limited	Thailand	Baht25,000	100	—	Ordinary	Investment holding
Morning Star Hotel International Limited	Cayman Islands	HK\$200	100	—	Ordinary	Investment holding
Morning Star Hotel Investments Limited	Cayman Islands	HK\$200	100	—	Ordinary	Investment holding
Morning Star Investment Management Limited	Hong Kong	HK\$5,000,000	—	59.2	Ordinary	Provision of investment advisory services
Morning Star Properties Limited	British Virgin Islands	US\$2	100	—	Ordinary	Investment holding

## Notes to Financial Statements

31st December, 2001

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Morning Star Property Consultants Limited	Hong Kong	HK\$2	—	100	Ordinary	Provision of property consultancy services
Morning Star Travel International Limited	Cayman Islands	HK\$200	100	—	Ordinary	Investment holding
Morning Star Securities Limited	Hong Kong	HK\$150,000,000	—	59.2	Ordinary	Securities broking
Morning Star Travel Service Limited	Hong Kong	HK\$90,000,000 HK\$10,000,000	— —	100 100	Ordinary Non- Voting deferred	Provision of travel services
Morning Star Travel Service Ltd.*	British Columbia, Canada	C\$81,000	—	100	Ordinary	Provision of travel services
Morning Star Travel Service (Macau) Limited*	Macau	MOP1,000,000	—	100	Ordinary	Provision of travel services
Morning Star Traveller Plus Limited	Hong Kong	HK\$2	—	100	Ordinary	Provision of travel-related services
Remarkable Investments Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Ordinary	Property holding
Star Building (Holdings) Limited	Thailand	Baht1,000,000	—	50.8	Ordinary	Property holding

## Notes to Financial Statements

31st December, 2001

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Star Travel Service Limited	Hong Kong	HK\$1,050,000	—	100	Ordinary	Provision of travel services
Stowford Pty. Ltd.	Australia	A\$20	—	69.5	Ordinary	Hoteliers and caterers
Vista International Hotels Limited	Hong Kong	HK\$10 HK\$300,000	— —	100 100	Ordinary Non- voting deferred	Hotel management
Vista Hotel Management Sdn Bhd	Malaysia	MYR2 MYR500,000	— —	100 100	Ordinary Non- cumulative irredeemable 10% preference	Hotel management
Vista International Hotels Pty. Limited	Australia	A\$2	—	100	Ordinary	Hotel management

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

The above table lists the subsidiaries of the Company as at 31st December, 2001 which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

## Notes to Financial Statements

31st December, 2001

### 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) from operating activities	<b>(95,875)</b>	22,435
Interest income	<b>(4,066)</b>	(4,197)
Dividends from unlisted long term investments	<b>(353)</b>	—
Depreciation	<b>8,841</b>	11,186
Goodwill amortisation	<b>781</b>	—
Provision for impairment of land and buildings	<b>102,112</b>	—
Provision for impairment of goodwill	<b>16,996</b>	—
Provision for impairment of long term investments	<b>339</b>	—
Revaluation deficit of investment properties	<b>4,086</b>	—
Unrealised loss on short term investment in securities	<b>103</b>	—
Gain on disposal of long term investments	—	(277)
Gain on disposal of land and buildings	<b>(465)</b>	—
Loss on disposal of other fixed assets	<b>50</b>	811
Decrease/(increase) in amounts due from related companies	<b>3,549</b>	(6,755)
Decrease/(increase) in properties held for sale	<b>(61,810)</b>	2,325
Increase in properties under development held for sale	<b>(8,296)</b>	(30,692)
Decrease in inventories	<b>463</b>	205
Decrease/(increase) in trade receivables	<b>22,109</b>	(8,567)
Decrease/(increase) in other receivables	<b>15,093</b>	(6,360)
Increase in client trust bank balances	<b>(2,387)</b>	(6,521)
Increase/(decrease) in amounts due to related companies	<b>(368)</b>	1,106
Increase/(decrease) in trade payables, other payables and accruals	<b>(30,631)</b>	25,028
Net cash outflow from operating activities	<b>(29,729)</b>	(273)

## Notes to Financial Statements

31st December, 2001

(b) Acquisition of subsidiaries

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Fixed assets	—	25
Long term investments	—	8,926
Other assets	—	600
Short term investments	—	277
Trade receivables	—	333
Other receivables	—	4,888
Cash and bank balances	—	54,975
Trade payables, other payables and accruals	—	(3,102)
Loans from minority shareholders	—	(16,220)
Loans from group company	—	(7,847)
Minority interests	—	(18,242)
	<hr/>	<hr/>
	—	24,613
Capital reserve on acquisition	—	(164)
	<hr/>	<hr/>
	—	24,449
Satisfied by:		
Reclassification of interests in associates	—	17,295
Reclassification of loans to associates	—	7,154
	<hr/>	<hr/>
	—	24,449
	<hr/>	<hr/>



## Notes to Financial Statements

31st December, 2001

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	<u>—</u>	<u>54,975</u>

The subsidiaries acquired in prior year made no significant contribution to the Group in respect of the cash flows, turnover or contribution to the consolidated loss after tax and before minority interests for that year.

(c) Analysis of changes in financing during the year

	<b>Issued capital (including share premium) HK\$'000</b>	<b>Minority interests HK\$'000</b>	<b>Loans and finance lease payables HK\$'000</b>
Balance as at 1st January, 2000	317,971	79,041	141,249
Share of profit for the year	—	16,393	—
Acquisition of subsidiaries	—	18,242	16,220
Inception of finance lease contracts	—	—	149
Net cash inflow/(outflow) from financing	90,352	(1,801)	(3,178)
Effect of foreign exchange adjustments	—	(5,326)	(66)
Balance as at 31st December, 2000 and 1st January, 2001	<b>408,323</b>	<b>106,549</b>	<b>154,374</b>
Share of profit for the year	—	15,212	—
Dividends paid to minority interests by subsidiaries	—	(12,150)	—
Purchase of additional interests in subsidiaries	—	(2,136)	—
Net cash inflow from financing	<b>80,915</b>	<b>28,999</b>	<b>3,020</b>
Effect of foreign exchange adjustments	—	(1,920)	(34)
Balance as at 31st December, 2001	<b>489,238</b>	<b>134,554</b>	<b>157,360</b>

## Notes to Financial Statements

31st December, 2001

(d) Major non-cash transactions

(i) Bonus issue

During the year, the Company issued 620,883,657 bonus shares of HK\$0.20 each by capitalising an amount of approximately HK\$124,177,000 from the share premium account.

(ii) Dividend from unlisted long term investments

During the year, a dividend receivable from one of the Group's unlisted long term investments, amounting to HK\$353,000, was satisfied by the issue of 10% convertible cumulative preferred stock of the investee company.

### 35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for a term of two years.

At 31st December, 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>167</b>	670
In the second to fifth years, inclusive	—	167
	<hr/>	<hr/>
	<b>167</b>	837
	<hr/>	<hr/>

## Notes to Financial Statements

31st December, 2001

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31st December, 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2001</b>	<b>Group</b>
	<b>HK\$'000</b>	2000
		HK\$'000
		(Restated)
Within one year	<b>7,254</b>	7,650
In the second to fifth years, inclusive	<b>2,059</b>	5,476
	<b><u>9,313</u></b>	<u>13,126</u>

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

## Notes to Financial Statements

31st December, 2001

### 36. CAPITAL COMMITMENTS

	<b>2001</b>	<b>Group</b>
	<b>HK\$'000</b>	2000 <i>HK\$'000</i>
Contracted for:		
Land and construction costs	<b>15,426</b>	110,576
Others	—	15,443
Authorised, but not contracted for:		
Land and construction costs	<b>202,827</b>	65,544
	<b>218,253</b>	191,563

The above amount of HK\$218,253,000 (2000: HK\$176,120,000) relates to the development of the Group's property projects in Zhongshan, the People's Republic of China, into a residential and commercial complex.

In addition to the above, the Group's share of capital commitments of a jointly-controlled entity is as follows:

	<b>2001</b>	<b>Group</b>
	<b>HK\$'000</b>	2000 <i>HK\$'000</i>
Contracted, but not provided for	<b>1,189</b>	1,167

Save as disclosed above, the Company and the Group had no other significant commitments at the balance sheet date.

## Notes to Financial Statements

31st December, 2001

### 37. CONTINGENT LIABILITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank guarantees	384,755	355,597	116,337	163,869
Guarantee of banking facilities granted to a subsidiary	—	—	10,000	—
	<u>384,755</u>	<u>355,597</u>	<u>126,337</u>	<u>163,869</u>

Included in bank guarantees is an amount of HK\$376,712,000 (2000: HK\$347,032,000) (Company – 2001: HK\$108,293,000; 2000: HK\$155,304,000) in respect of buy-back guarantees in favour of banks given to the purchasers of the Morning Star Villa and Morning Star Plaza properties on certain mortgage loans outstanding at the balance sheet date.

### 38. POST BALANCE SHEET EVENTS

- (a) Acquisition of additional equity interest in Morning Star Financial Services Limited (“MSFS”)

Subsequent to the balance sheet date, on 5th March, 2002, the Company entered into a sale and purchase agreement with Firstway International Investment Limited (“Firstway”), a substantial shareholder of the Company, for the acquisition of 8,192,500 ordinary shares of MSFS, a subsidiary of the Company, at a consideration of HK\$8,684,050. Upon the completion of this transaction, the Company’s interest in MSFS will increase to approximately 78.35%.

Further details of this transaction are set out in the Company’s press announcement dated 5th March, 2002.

## Notes to Financial Statements

31st December, 2001

- (b) A waiver in relation to minimum public float of the Company's shares

Following the completion of the Company's rights and bonus issues during the year, the number of the Company's shares held in public hands became less than the minimum public float requirement of 25% which is required by Rule 8.08 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited. The Company has applied for a number of waivers from strict compliance with Rule 8.08 of the Listing Rules.

Further details of the latest waiver are set out in the Company's press announcement dated 27th February, 2002.

- (c) Contract with Shen & Partners Limited ("Shen & P")

Subsequent to the balance sheet date, on 8th March, 2002, Jubilation Properties Limited ("JPL"), an indirect subsidiary of the Company, entered into a contract with Shen & P in respect of the appointment of Shen & P as JPL's design consultants to provide consultancy services in respect of the masterplanning for Phases VIII and IX of Morning Star Villa and architectural designs for Phase VIII of Morning Star Villa at a total consideration of HK\$2,240,000. Mr. Edward SHEN, an Independent Non-Executive Director of the Company, is a director of, and holds a 60% interest in the issued share capital of Shen & P.

Further details of this transaction are set out in the Company's press announcement dated 8th March, 2002.

## Notes to Financial Statements

31st December, 2001

### 39. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

	Notes	2001 HK\$'000	2000 HK\$'000
Rental income from related companies:			
Morning Star Securities Limited ("MSSL")	(i)	—	856
Morning Star Investment Management Limited ("MSIML")	(i)	—	48
MUI Enterprises Limited ("MUIEL")	(i)	<b>841</b>	856
Architectural consultancy fees paid to:			
Shen & Partners Limited ("Shen & P")	(ii)	<b>217</b>	1,140
SRT Design (China) Limited ("SRT (China)")	(ii)	<b>322</b>	100
Interest income from Morning Star Villa Management Limited ("MVM")			
	(iii)	<b>270</b>	372
Property management fees paid to MVM			
	(iv)	<b>405</b>	—
Subscription of 10% convertible cumulative preferred stock of Porchlight Entertainment, Inc. ("Porchlight")			
	(v)	<b>11,703</b>	—
Acquisition of shares of Plaza on Hyde Park Limited ("POHP")			
	(vi)	<b>95,352</b>	—
Underwriting commission paid to Bonham Industries Limited ("Bonham")			
	(vii)	<b>191</b>	—

Notes:

- (i) MSSL and MSIML are subsidiaries of Morning Star Financial Services Limited ("MSFS") and associates of Firstway International Investment Limited ("Firstway"), a substantial shareholder of the Company. Accordingly, prior to the completion of the acquisition of shares in MSFS by the Company on 30th December, 2000, MSSL, MSIML and MSFS were considered related parties of the Company. MUIEL is a subsidiary of Malayan United Industries Berhad ("MUI"). Tan Sri Dr. KHOO Kay Peng ("Tan Sri Dr. KHOO"), the Non-Executive Chairman of the Company, is also the chairman of Firstway and MUI. Pursuant to tenancy agreements entered into between the Group and MSSL and MUIEL in 2000, the Group leased office areas to these companies for a period of two years commencing on 1st April, 2000 at a total annual rental of HK\$1,339,000. Additionally, pursuant to a tenancy agreement entered into between the Group and MSIML, the Group leased a car parking space to MSIML at a monthly rental of HK\$4,000. The rentals charged to MSSL, MSIML and MUIEL were determined by reference to open market rentals.

## Notes to Financial Statements

31st December, 2001

Following the acquisition of additional shares in MSFS by the Company on 30th December, 2000, MSSL and MSIML ceased to be related parties of the Group.

- (ii) Mr. Edward SHEN, an Independent Non-Executive Director of the Company, is a director of, and holds a 60% interest in the issued share capital of Shen & P, which in turn holds a 50% interest in the issued share capital of SRT (China). The fees were charged by reference to the then prevailing market rates.

As detailed in note 38(c) above, subsequent to the balance sheet date, on 8th March, 2002, Jubilation Properties Limited ("JPL"), an indirect subsidiary of the Company, entered into a contract with Shen & P in respect of the appointment of Shen & P for providing consultancy services for Morning Star Villa for a total consideration of HK\$2,240,000. The consideration was determined by reference to the prevailing market rates. Further details of this transaction are set out in the Company's press announcement dated 8th March, 2002.

- (iii) MVM is engaged in the property management of Morning Star Villa. Certain directors of the Company and its subsidiaries are also the directors of MVM. Interest at 2% above the Hong Kong dollar prime rate per annum is charged on balances with MVM.
- (iv) Property management fees paid to MVM represent the property management fees of the vacant units of Morning Star Villa owned by JPL, which is engaged in the development of Morning Star Villa. The property management fees on unsold units are determined based on half the rate per feet charged to the other owners of Morning Star Villa.
- (v) During the year, the Company subscribed for 1,500,000 10% convertible cumulative preferred stock of Porchlight at a total consideration of HK\$11,703,000. MUI, of which Tan Sri Dr. KHOO is the chairman and group chief executive, indirectly owns a 50% equity interest in Porchlight. The subscription consideration is based on the price of US\$1 per share.
- (vi) On 17th August, 2001, the Company entered into a sale and purchase agreement (the "Agreement") with London Vista Hotel Limited ("London Vista") to acquire a 40% equity interest in POHP at a consideration of HK\$95,352,000. As at the date of the Agreement, MUI, of which Tan Sri Dr. KHOO is the chairman and group chief executive, indirectly owned a 49% equity interest in London Vista. The purchase consideration was determined by reference to the unaudited net asset value of POHP as at 30th September, 2001, adjusted for an agreed valuation of GBP45,000,000 for the entire fixed assets of POHP. Pursuant to the Agreement, the Company was granted an option, which is exercisable within two years commencing from the date of the Agreement, to purchase an additional 11% equity interest in POHP at an exercise price of HK\$25,806,000 which is subject to adjustment as provided in the Agreement.

Further details of this transaction are set out in the Company's circular dated 10th September, 2001 and note 17 to the financial statements above.

- (vii) During the year, the Company entered into an underwriting agreement with Bonham and Firstway, both are substantial shareholders of the Company, and MSSL, an indirect subsidiary of the Company. Pursuant to the underwriting agreement, Bonham and MSSL undertook to underwrite any rights shares not subscribed by the Company's shareholders. The Company agreed to pay to Bonham and MSSL an underwriting commission at a rate of 1% of the value of rights shares subscribed or procured subscription by Bonham and MSSL. A total of 95,285,871 rights shares were taken up by Bonham in October 2001.

Further details of this underwriting arrangement are set out in the Company's circular dated 10th September, 2001, the Company's prospectus dated 5th October, 2001 and the Company's press announcement dated 26th October, 2001.



## Notes to Financial Statements

31st December, 2001

As detailed in note 38(a) to the financial statements, subsequent to the balance sheet date, on 5th March, 2002, the Company contracted to acquire 8,192,500 ordinary shares of MSFS from Firstway, a substantial shareholder of the Company, at a consideration of HK\$8,684,050. The purchase consideration was determined by reference to the adjusted unaudited consolidated net asset value of MSFS as at 31st December, 2001. Further details of this transaction are set out in the Company's press announcement dated 5th March, 2002.

Details of the Group's balances with jointly-controlled entities, associates and related companies at the balance sheet date are set out in notes 16, 17 and 21 to the financial statements, respectively.

### 40. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statement have been revised to comply with new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

### 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25th March, 2002.