



# Notes to the Financial Statements

*For the year ended 31 December, 2001*

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Perfect Zone International Limited, incorporated in the British Virgin Islands (“BVI”).

The Company is an investment holding company. Its subsidiaries are principally engaged in property development, investment and management.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies.

The adoption of these SSAPs has not had any effect on the results for the current or prior periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from their effective dates of acquisition or up to their effective dates of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.



## Notes to the Financial Statements *(Continued)*

For the year ended 31 December, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Property, plant and equipment**

Property, plant and equipment other than investment properties are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, other than investment properties using the straight-line method, at the following rates per annum:

Leasehold land and buildings	The shorter of the lease terms and 50 years
Leasehold improvements	The shorter of the lease terms and 5 years
Machinery	10 years
Furniture, office equipment and motor vehicles	5 years

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

#### **Investment properties**

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

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



## Notes to the Financial Statements *(Continued)*

*For the year ended 31 December, 2001*

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Investment properties** *(Continued)*

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

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

#### **Properties under development/properties for sale**

Properties for sale, which comprise completed properties and properties under development, are stated at the lower of cost and net realisable value. Cost includes all development expenditure, interest charges and other direct costs attributable to the development of the properties and is determined by an apportionment of the total development costs attributable to unsold properties. Net realisable value is estimated by the directors based on prevailing market prices, on an individual property basis.

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to completion and is limited to the amount of sales instalments received after due allowance for contingencies.

Properties under development which have either been pre-sold, are intended for sale, or are expected to be completed within twelve months, are classified as current assets.

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.



## Notes to the Financial Statements *(Continued)*

*For the year ended 31 December, 2001*

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### **Revenue recognition**

The revenue arising from sales of properties under development/properties for sale is recognised when legally binding unconditional sales contracts are signed and effected, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out above under “Properties under development/properties for sale”.

Property management income is recognised when the related management services have been rendered.

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant lease.

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

#### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas operations and subsidiaries which are denominated in foreign currencies are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

## Notes to the Financial Statements *(Continued)*

*For the year ended 31 December, 2001*

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Retirement benefits scheme**

The retirement benefits costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

#### **Operating leases**

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

### 4. TURNOVER

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Sale of properties	<b>42,644</b>	31,260
Property management income	<b>1,251</b>	836
Rental income	<b>157</b>	467
	<b>44,052</b>	32,563

## Notes to the Financial Statements *(Continued)*

For the year ended 31 December, 2001

### 5. SEGMENTAL INFORMATION

For management purposes, the Group is organised into two main operating businesses — property development and property investment. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

#### Business segments

#### RESULTS

	Property development		Property investment		Other		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment turnover	42,644	31,260	157	467	1,251	836	44,052	32,563
Segment result	(27,815)	(59,452)	(980)	(50)	(860)	(1,064)	(29,655)	(60,566)
Finance costs							(8,083)	(3,887)
Loss before taxation							(37,738)	(64,453)
Taxation							1,200	—
Net loss for the year							(36,538)	(64,453)

#### BALANCE SHEET

	Property development		Property investment		Other		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
ASSETS								
Segment assets	314,055	426,236	238,710	8,127	985	587	553,750	434,950
LIABILITIES								
Segment liabilities	233,971	256,848	161,005	2,926	990	136	395,966	259,910

## Notes to the Financial Statements (Continued)

For the year ended 31 December, 2001

### 5. SEGMENTAL INFORMATION (Continued)

#### Business segments (Continued)

#### OTHER INFORMATION

	Property development		Property investment		Other		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Additions of property, plant and equipment	—	—	—	—	272	208	272	208
Depreciation	1,931	1,971	—	—	46	43	1,977	2,014
Allowance for bad and doubtful debts	8,580	17,706	—	—	—	—	8,580	17,706
Deficit on revaluation	1,390	2,076	302	370	—	—	1,692	2,446

#### Geographical segments

The Group's operations are mainly located in Hong Kong and the People's Republic of China (other than Hong Kong) (the "PRC").

Other than the rental income from property investment which was derived in Hong Kong, all the other turnover of the Group were derived in the PRC.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	244,840	13,121	—	—
PRC	308,910	421,829	272	208
	553,750	434,950	272	208

## Notes to the Financial Statements (Continued)

For the year ended 31 December, 2001

### 6. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging:		
Cost of properties sold	41,631	27,898
Depreciation	1,977	2,014
Auditors' remuneration	500	950
Staff costs		
Directors' remuneration (note 8)	1,274	1,995
Other staff costs		
Salaries and other benefits	4,666	2,570
Retirement benefits scheme contributions	46	4
	5,986	4,569
Deficit on revaluation of leasehold land and buildings	1,390	2,076
Deficit on revaluation of investment properties	302	370
Loss on disposal of investment properties	390	—
Operating lease rentals in respect of land and buildings	521	—
Compensation for delay in completion of properties	1,020	1,655
and after crediting:		
Interest income	(4)	(86)
Gain on disposal of property, plant and equipment	(451)	—
Gross rental income	(157)	(467)
Less: Outgoings	26	62
Net rental income	(131)	(405)



## Notes to the Financial Statements (Continued)

For the year ended 31 December, 2001

### 7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans wholly repayable within five years	11,118	10,759
Interest on other loans wholly repayable within five years	—	2,131
Total finance costs	11,118	12,890
Less: Interest capitalised in properties under development	(3,035)	(9,003)
	<b>8,083</b>	3,887

Interest capitalised during the year was calculated at a rate of approximately 7% (2000: 7%) per annum.

### 8. DIRECTORS' EMOLUMENTS

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	120
Other emoluments:		
Executive directors		
Salaries and other benefits	1,072	1,435
Retirement benefits scheme contributions	22	—
Non-executive directors	180	440
	<b>1,274</b>	1,995

The emoluments of the directors were within the following band:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	12	6

## Notes to the Financial Statements *(Continued)*

For the year ended 31 December, 2001

### 8. DIRECTORS' EMOLUMENTS *(Continued)*

During the year, no emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office.

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

### 9. EMPLOYEES' EMOLUMENTS

Of the five (2000: Six) individuals with the highest emoluments in the Group, three (2000: four) were directors of the Company, whose remunerations are included in note 8 above. The emoluments of the remaining two (2000: two) individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	688	760

### 10. TAXATION

No provision for Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiaries since they had no assessable profit for the year. The taxation credit represents overprovision of income tax in Hong Kong in prior years.

Income tax in the PRC has been provided at the prevailing rates on the estimated assessable profit applicable to each individual company within the Group in the PRC.

The Group did not have any significant unprovided deferred taxation for the year or unprovided deferred tax asset or liability at the balance sheet date.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of leasehold land and buildings and investment properties as profits arising on the disposal of those assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

### 11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$36,538,000 (2000: HK\$64,453,000) and the weighted average of 290,992,239 (2000: 250,660,777) ordinary shares in issue during the year.

## Notes to the Financial Statements *(Continued)*

For the year ended 31 December, 2001

### 11. LOSS PER SHARE *(Continued)*

The computation of diluted loss per share has not assumed the exercise of the potential ordinary shares since their exercise would result in a reduction in loss per share.

### 12. PROPERTY, PLANT AND EQUIPMENT

#### THE GROUP

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Furniture, office equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 January, 2001	45,534	5,371	445	3,951	55,301
Additions	—	—	—	272	272
Disposals	(1,534)	—	—	(116)	(1,650)
Deficit on revaluation	(2,814)	—	—	—	(2,814)
At 31 December, 2001	41,186	5,371	445	4,107	51,109
Analysis of cost or valuation:					
At cost	—	5,371	445	4,107	9,923
At valuation	41,186	—	—	—	41,186
	41,186	5,371	445	4,107	51,109
Depreciation and amortisation					
At 1 January, 2001	—	2,175	259	3,307	5,741
Provided for the year	877	967	35	98	1,977
Eliminated on disposals	(77)	—	—	(52)	(129)
Written back on revaluation	(800)	—	—	—	(800)
At 31 December, 2001	—	3,142	294	3,353	6,789
Net book values					
At 31 December, 2001	41,186	2,229	151	754	44,320
At 31 December, 2000	45,534	3,196	186	644	49,560

## Notes to the Financial Statements *(Continued)*

*For the year ended 31 December, 2001*

### 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

#### THE GROUP *(Continued)*

The Group's leasehold land and buildings included above are held under the following terms:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Long term leases in Hong Kong	<b>2,610</b>	4,000
Long term leases in the PRC	<b>38,132</b>	41,034
Medium term leases in the PRC	<b>444</b>	500
	<b>41,186</b>	45,534

At 31 December, 2001, the leasehold land and buildings in Hong Kong and the PRC were revalued on an open market, existing use basis by Castores Magi Surveyors Limited, a firm of independent professional valuers, at HK\$2,610,000 and HK\$38,576,000, respectively. Deficits on revaluation of HK\$1,390,000 and HK\$624,000 arising from the above valuations have been charged to the income statement and leasehold land and buildings revaluation reserve respectively.

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$8,144,000 (2000: HK\$8,320,000).

Had the Group's leasehold land and buildings held in the PRC been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$28,332,000 (2000: HK\$29,062,000).

At 31 December, 2001, certain of the Group's leasehold land and buildings situated in Hong Kong and the PRC with carrying values of approximately HK\$2,610,000 (2000: HK\$4,000,000) and HK\$26,000,000 (2000: HK\$26,000,000), respectively, were pledged to secure certain banking facilities granted to the Group (note 19).

# Notes to the Financial Statements *(Continued)*

For the year ended 31 December, 2001

## 13. INVESTMENT PROPERTIES

	<b>THE GROUP</b> HK\$'000
Valuation:	
At 1 January, 2001	8,177
Additions	238,625
Disposals	(7,790)
Deficit on revaluation (note 6)	(302)
	<hr/>
At 31 December, 2001	238,710

The Group's investment properties are held under the following terms:

	<b>2001</b> HK\$'000	2000 HK\$'000
Long term lease in Hong Kong	<b>238,625</b>	8,090
Long term lease in the PRC	<b>85</b>	87
	<hr/> <b>238,710</b>	8,177

At 30 November, 2001, the investment property in Hong Kong was revalued on an open market, existing use basis by Debenham Tie Leung, an independent firm of professional valuers, at HK\$230,000,000. In the opinion of the directors, there is no significant difference in market value of the investment property from its carrying amount as at 31 December, 2001

At 31 December, 2001, the investment properties in the PRC was revalued on an open market, existing use basis by Castores Magi Surveyors Limited, an independent firm of professional valuers, at HK\$85,000. Deficit on revaluation of approximately HK\$2,000 arising from the above valuation has been charged to the income statement.

At 31 December, 2001, the Group's investment property situated in Hong Kong with carrying value of approximately HK\$238,625,000 (2000: HK\$8,090,000) were pledged to secure certain banking facilities granted to the Group (note 19).

## 14. PROPERTIES UNDER DEVELOPMENT/PROPERTIES FOR SALE

The Group's properties under development/properties for sale are situated in the PRC and are held under medium and long term land use rights.

At 31 December, 2001, the Group's properties under development/properties for sale with an aggregate carrying value of approximately HK\$112,000,000 (2000: HK\$106,000,000) were pledged to secure banking facilities granted to the Group (note 19).

## Notes to the Financial Statements (Continued)

For the year ended 31 December, 2001

### 15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	163,006	152,720

Particulars of the principal subsidiaries at 31 December, 2001 are as follows:

Name	Place of incorporation/ operations	Issued share capital/ registered capital	Attributable equity interest of the Company	Principal activities
<b>Directly held</b>				
Dong Jian Group Limited	BVI	US\$1,500	100%	Investment holding
Dong Jian Technology Group Limited	BVI	US\$1	100%	Investment holding
<b>Indirectly held</b>				
Advantage Properties Limited	BVI/Hong Kong	US\$1	100%	Property investment
Fujian Dongjian Real Estate Co., Ltd.	PRC	RMB80,000,000	100%	Property development and investment
Fujian Tung On Property Manage Co., Ltd.	PRC	US\$600,000	100%	Property management
World Billion Holdings Limited	Hong Kong	HK\$2	100%	Property holding

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the subsidiaries which principally affect the results or assets and liabilities of the Group.

None of the subsidiaries had any loan capital outstanding during the year or at the end of the year.

## Notes to the Financial Statements *(Continued)*

For the year ended 31 December, 2001

### 16. TRADE RECEIVABLES

The Group's trade receivables mainly comprise receivables from the sale of properties. Credit policies for each project are determined with reference to the prevailing market conditions. At the balance sheet date, most of the Group's trade receivables were current within their respective terms of credit and there were no significant overdue amounts.

### 17. BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans	259,947	143,764	—	2,815
Other loans	3,199	27,550	—	—
	<b>263,146</b>	171,314	—	2,815
Secured	263,146	143,764	—	2,815
Unsecured	—	27,550	—	—
	<b>263,146</b>	171,314	—	2,815
The borrowings are repayable as follows:				
On demand or within one year	112,879	138,449	—	111
More than one year, but not exceeding two years	10,733	26,483	—	123
More than two years, but not exceeding five years	32,200	2,211	—	442
More than five years	107,334	4,171	—	2,139
	<b>263,146</b>	171,314	—	2,815
Less: Amount due within one year shown under current liabilities	(112,879)	(138,449)	—	(111)
	<b>150,267</b>	32,865	—	2,704



## Notes to the Financial Statements *(Continued)*

*For the year ended 31 December, 2001*

### **18. TRADE PAYABLES**

The Group's trade payables mainly comprise costs payable for property development projects which are payable upon completion of work certified by the architects. At the balance sheet date, most of the Group's trade payables were current within their respective terms of credit and there were no significant overdue amounts.

### **19. BANKING FACILITIES**

At 31 December, 2001, the Group's banking facilities were secured by:

- (i) the Group's leasehold land and buildings situated in Hong Kong and the PRC with carrying values of approximately HK\$2,610,000 (2000: HK\$4,000,000) and HK\$26,000,000 (2000: HK\$26,000,000), respectively (note 12);
- (ii) the Group's investment property situated in Hong Kong with a carrying value of approximately HK\$238,625,000 (2000: HK\$8,090,000) (note 13);
- (iii) the Group's properties under development/properties for sale with an aggregate carrying values of approximately HK\$112,000,000 (2000: HK\$106,000,000) (note 14);
- (iv) joint and several personal guarantees given by certain directors of the Group; and
- (v) corporate guarantees given by the Company and a related company.



## Notes to the Financial Statements (Continued)

For the year ended 31 December, 2001

### 20. SHARE CAPITAL

	Notes	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each			
Authorised:			
At 1 January, 2000, 31 December, 2000 and 31 December, 2001		1,000,000	100,000
Issued and fully paid:			
At 1 January, 2000		220,000	22,000
Issue of shares		25,000	2,500
Exercise of warrants		8,558	856
Exercise of share options		5,600	560
Repurchase of shares		(470)	(47)
At 31 December, 2000		258,688	25,869
Issue of shares	(a)	41,000	4,100
Exercise of warrants	(b)	10,778	1,078
Exercise of share options	(c)	2,850	285
At 31 December, 2001		313,316	31,332

*Notes:*

- (a) On 26 March, 2001, arrangements were made for a placing and subscription of 41,000,000 shares of HK\$0.10 each in the Company to a number of independent investors not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates at a price of HK\$0.40 per share. The price of HK\$0.40 per share represented a discount of approximately 10.11% to the closing share price per share of HK\$0.445 as quoted on the Stock Exchange on 26 March, 2001. The net proceeds of approximately HK\$15,993,000 were used as general working capital of the Group.
- (b) During the year, 10,777,600 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$0.35 per share pursuant to the exercise of the Company's warrants for a total consideration, before expenses, of approximately HK\$3,772,000.
- (c) During the year, 2,850,000 share options were exercised at a subscription price of HK\$0.46 per share, resulting in the issue of 2,850,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of approximately HK\$1,311,000.

These shares rank pari passu with all other shares in all respects.

## Notes to the Financial Statements (Continued)

For the year ended 31 December, 2001

### 21. WARRANTS

Pursuant to an ordinary resolution passed on 10 December, 1999, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 10 December, 1999, and 44,000,000 warrants were issued pursuant to the bonus issue. Each warrant entitles the holders thereof to subscribe for one ordinary share of HK\$0.10 at a subscription price of HK\$0.35 per share, payable in cash and subject to adjustment, from 14 December, 1999 (date of issue) to 31 December, 2002.

During the year, warrants with aggregate gross issue proceeds of approximately HK\$3,772,000 were exercised by the warrant holders to subscribe for 10,777,600 ordinary shares in the Company at a subscription price of HK\$0.35 per share.

The exercise in full of the outstanding warrants at the subscription price of HK\$0.35 per share at the balance sheet date would, based on the present capital structure of the Company, result in the issue of 24,664,000 new shares and the receipt by the Company of approximately HK\$8,632,400 before any related issue expenses.

### 22. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Leasehold land and buildings revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Accumulated profits/ (losses) HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
At 1 January, 2000	12,110	47,654	11,096	13,237	109,455	193,552
Issue of shares	16,140	—	—	—	—	16,140
Share issue expenses	(363)	—	—	—	—	(363)
Exercise of share options	2,016	—	—	—	—	2,016
Exercise of warrants	2,139	—	—	—	—	2,139
Repurchase of shares	(182)	—	—	—	—	(182)
Surplus on revaluation	—	—	322	—	—	322
Net loss for the year	—	—	—	—	(64,453)	(64,453)
At 31 December, 2000	31,860	47,654	11,418	13,237	45,002	149,171
Issue of shares	12,300	—	—	—	—	12,300
Share issue expenses	(407)	—	—	—	—	(407)
Exercise of share options	1,026	—	—	—	—	1,026
Exercise of warrants	2,694	—	—	—	—	2,694
Released on disposals	—	—	(1,170)	—	—	(1,170)
Deficit on revaluation	—	—	(624)	—	—	(624)
Net loss for the year	—	—	—	—	(36,538)	(36,538)
At 31 December, 2001	47,473	47,654	9,624	13,237	8,464	126,452

## Notes to the Financial Statements *(Continued)*

For the year ended 31 December, 2001

### 22. RESERVES *(Continued)*

	Share premium HK\$'000	Contributed surplus HK\$'000	Leasehold land and buildings revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Accumulated profits/ (losses) HK\$'000	Total HK\$'000
<b>THE COMPANY</b>						
At 1 January, 2000	12,110	152,029	—	—	5,507	169,646
Issue of shares	16,140	—	—	—	—	16,140
Share issue expenses	(363)	—	—	—	—	(363)
Exercise of share options	2,016	—	—	—	—	2,016
Exercise of warrants	2,139	—	—	—	—	2,139
Repurchase of shares	(182)	—	—	—	—	(182)
Net loss for the year	—	—	—	—	(40,225)	(40,225)
At 31 December, 2000	31,860	152,029	—	—	(34,718)	149,171
Issue of shares	12,300	—	—	—	—	12,300
Share issue expenses	(407)	—	—	—	—	(407)
Exercise of share options	1,026	—	—	—	—	1,026
Exercise of warrants	2,694	—	—	—	—	2,694
Net loss for the year	—	—	—	—	(35,338)	(35,338)
At 31 December, 2001	47,473	152,029	—	—	(70,056)	129,446

In accordance with the laws of the PRC on Sole Foreign Investment Enterprises, the Company's PRC subsidiaries are required to transfer an amount of not less than 10% of their profit after tax to the statutory reserve fund until the accumulated total reaches 50% of their registered capital.

The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 22 June, 1998, and represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

## Notes to the Financial Statements *(Continued)*

*For the year ended 31 December, 2001*

### 22. RESERVES *(Continued)*

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinions of the directors, the Company's reserves available for distribution to shareholders as at 31 December, 2001 are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Contributed surplus	<b>152,029</b>	152,029
Accumulated losses	<b>(70,056)</b>	(34,718)
	<b>81,973</b>	117,311

Moreover, pursuant to the Companies Act 1981 of Bermuda (as amended), the Company share premium account of HK\$47,473,000 (2000: HK\$31,860,000) may be distributed in the form of fully paid bonus shares.

## Notes to the Financial Statements *(Continued)*

*For the year ended 31 December, 2001*

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

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Loss before taxation	<b>(37,738)</b>	(64,453)
Interest income	<b>(4)</b>	(86)
Interest expenses	<b>11,118</b>	3,887
Depreciation	<b>1,977</b>	2,014
Deficit on revaluation of leasehold land and building	<b>1,390</b>	2,076
Deficit on revaluation of investment properties	<b>302</b>	370
Impairment loss recognised in respect of properties under development	<b>—</b>	22,528
Allowance for bad and doubtful debts	<b>8,580</b>	17,706
Gain on disposal of property, plant and equipment	<b>(451)</b>	—
Loss on disposal of investment properties	<b>390</b>	—
Decrease (increase) in properties under development/properties for sale	<b>35,433</b>	(25,279)
Decrease in prepayments, deposits and other receivables	<b>21,973</b>	13,977
Decrease in trade receivables	<b>30,426</b>	11,009
Decrease in trade payables	<b>(28,085)</b>	(8,953)
(Decrease) increase in other payables and accruals	<b>(6,060)</b>	11,016
Net cash inflow (outflow) from operating activities	<b>39,251</b>	(14,188)

## Notes to the Financial Statements (Continued)

For the year ended 31 December, 2001

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

	Amount due to ultimate holding company HK\$'000	Borrowings HK\$'000	Share capital and share premium HK\$'000
At 1 January, 2000	—	164,482	34,110
New borrowings raised	—	108,189	—
Repayment of borrowings	—	(101,357)	—
Issue of shares	—	—	18,640
Share issue expenses	—	—	(363)
Exercise of share options	—	—	2,576
Exercise of warrants	—	—	2,995
Repurchase of shares	—	—	(229)
At 31 December, 2000	—	171,314	57,729
New borrowings raised	—	161,000	—
Repayment of borrowings	—	(69,168)	—
Advances from ultimate holding company	79,569	—	—
Issue of shares	—	—	16,400
Share issue expenses	—	—	(407)
Exercise of share options	—	—	1,311
Exercise of warrants	—	—	3,772
At 31 December, 2001	79,569	263,146	78,805

### 25. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The Scheme became effective from 1 December, 2000. Contributions are made based on a percentage of the employee's basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group under the control of trustees.

The total cost charged to the income statement of approximately HK\$68,000 (2000: HK\$4,000) represents contributions payable to the Scheme by the Group at rates specified in the rules of the Scheme.

## Notes to the Financial Statements *(Continued)*

For the year ended 31 December, 2001

### 26. OPERATING LEASE ARRANGEMENTS

#### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Within one year	<b>1,363</b>	—
In the second to fifth year inclusive	<b>909</b>	—
	<b>2,272</b>	—

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

The Company had no operating lease commitments at 31 December 2001.

#### The Group as lessor

Property rental income earned during the year was approximately HK\$157,000 (2000: HK\$467,000).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payment:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Within one year	—	157

## Notes to the Financial Statements (Continued)

For the year ended 31 December, 2001

### 27. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had the following capital commitments contracted for but not provided in the financial statements:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Commitments in respect of development expenditure for properties under development	29,370	45,587	—	—
Commitments in respect of capital contributions to subsidiaries in the PRC	—	—	48,645	17,163
	29,370	45,587	48,645	17,163

### 28. CONTINGENT LIABILITIES

The Company has given guarantees in favour of bankers to the extent of HK\$171,000,000 (2000: HK\$34,000,000) in respect of banking facilities granted to subsidiaries of the Company. At the balance sheet date, the banking facilities utilised by the subsidiaries amounted to approximately HK\$171,000,000 (2000: HK\$29,667,000).

For the year ended 31 December, 2000, guarantees to the extent of approximately HK\$3,099,000 were given by the Group to a bank in respect of mortgage loans facilities granted to certain purchasers for the purchase of certain properties developed by the Group.

### 29. POST BALANCE SHEET EVENTS

- (a) On 23 January, 2002, 156,658,000 new shares of HK\$0.1 each were issued by way of a rights issue on the basis of one rights share for every two shares at HK\$0.65 per rights share. The net proceeds of approximately HK\$100,500,000 were used to settle part of the cash consideration for the acquisition of an investment property purchased by a subsidiary during the year and to repay the amount due to ultimate holding company.





## Notes to the Financial Statements *(Continued)*

*For the year ended 31 December, 2001*

### **29. POST BALANCE SHEET EVENTS** *(Continued)*

- (b) On 4 February, 2002, a co-operative agreement was entered into between a related company, the major shareholder of the Company and a subsidiary to form a sino-foreign equity joint venture (“JV Company”) for the purpose of acquiring a land property from an independent third party and engaging in property development on the said land property. The total investment of the JV Company by the subsidiary was US\$27,000,000 (approximately HK\$210,600,000) of which US\$9,000,000 (approximately HK\$70,200,000) shall be in form of registered capital and US\$18,000,000 (approximately HK\$140,400,000) shall be in form of shareholder’s loan.

On 11 April, 2002, 329,048,466 new shares of HK\$0.1 each were issued by way of a rights issue on the basis of seven rights shares for every ten shares at HK\$0.65 per rights share. The net proceeds of approximately HK\$212,300,000 were used to acquire the land property and to form the JV Company as disclosed above.

- (c) Pursuant to an ordinary resolution passed on 15 March, 2002, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each to HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each by the creation of an additional 9,000,000,000 new shares of HK\$0.10 each in the Company.