

## 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the Directors have given careful consideration to current and future liquidity of the Group and its ability to repay bank borrowings as and when they fall due.

The Group had previously obtained an agreement with its bankers to restructure payments of outstanding bank loans and related interest payable for a standstill until 31 January 2002 (the "Debt Restructure Agreement"). Details of the Debt Restructure Agreement are set out in note 27 to the financial statements.

Prior to 31 January 2002, the Group has commenced negotiations with its bankers for refinancing and restructuring of the Group's bank borrowings. Up to the date of these financial statements, the negotiations with these bankers have come to an advanced stage. The Directors are confident of the satisfactory conclusion of the refinancing and the Group will have adequate financial resources to support its future operations. Accordingly, the financial statements have been prepared on a going concern basis, and in light of the above, the Directors consider that no reclassification of the Group's long-term bank borrowings into current liabilities is necessary.

## 2. ADOPTION OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants. The following are the SSAPs adopted together with a summary of their major effects where applicable.

SSAP 9 (Revised)	:	Events after the balance sheet date
SSAP 14 (Revised)	:	Leases
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

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date requires adjustment to the financial statements, and which requires disclosure but no adjustment.

Year ended 31 December 2001

## **2. ADOPTION OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)**

SSAP 14 (Revised) prescribes the basis for accounting for finance and operating leases, and the required disclosures in respect thereof. It has made certain amendments to the previous accounting treatments, however these amendments have not had a material effect on the amounts previously recorded in the income statement and balance sheet, therefore no prior year adjustments are required.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment, requiring management determines whether their predominant risks or returns for the business are based on business segments or geographical segments and to choose one of these bases as the primary reporting format, with the other as the secondary reporting format. The principal impact of this SSAP is the inclusion of additional segment reporting disclosures, which are included in note 6 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement basis to apply to provisions, contingent liabilities and contingent assets, together with the disclosure requirements. The principal impact of this SSAP on these financial statements is the requirement to discount the amounts of provisions to their present value at the balance sheet date, where the effect of time factor is material.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements and does not have major impact on these financial statements.

SSAP 30 prescribes the treatment of business combinations, including the determination of the date of acquisition and the fair value of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill on acquisition. This SSAP requires the disclosure of goodwill on acquisitions in the non-current assets section of the balance sheet, and that such goodwill is amortised to the income statement over its estimated useful life. SSAP 30 does not have major impact on these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets, together with disclosure requirements and does not have major impact on these financial statements.

SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements and does not have major impact on these financial statements.

The adoption of the above standards also does not have material impact on amounts reported in prior years.

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

#### (a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and leasehold land and buildings as explained in the accounting policies set out below.

#### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year together with the Group's interests in associates on the basis set out in (e) below. All significant inter-company transactions and balances have been eliminated on consolidation.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from or up to the effective dates of acquisition or disposal respectively.

#### (c) Goodwill

Goodwill represents the difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the effective date of acquisition. Goodwill is recognised as an asset and is amortised using the straight-line method over its estimated useful life of 20 years.

On the disposal of an investment in a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (d) Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

#### (e) Associates

An associate is an enterprise, in which the Group has significant influence but not control or joint control over its management, including participation in the financial and operating policy decisions, and which is neither a subsidiary nor a joint venture of the Group.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates includes the Group's share of the net assets of the associates and non-current receivable from associates. The carrying amount of such interests is reduced to recognise any impairment, that is other than a temporary decline, in the value of individual investments.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

#### (f) Other investments

Other investments held for an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised as an expense in the period in which the decline occurs.

The profit and loss on disposal of other investments is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the securities.

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (g) Valuation of properties

##### (i) *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, with rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on professional valuations at the balance sheet date. Such properties are valued on an open market value basis by independent professionally qualified valuers at intervals of not more than three years or, in the case of each of the intervening years, by the directors in consultation with professionally qualified personnel or independent valuers. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on the reserve is insufficient to cover a deficit, on a portfolio basis, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement and when a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

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

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

##### (ii) *Properties held for or under development*

Properties held for or under development with the intention for holding for long-term purposes when completed or no decision has yet been made on their purposes are included in the balance sheet as non-current assets and stated at cost, less necessary provision for impairment loss. Cost comprises the cost of acquisition of such properties, together with development expenditure, other relevant direct costs and borrowing costs capitalised in accordance with the Group's accounting policy.

No depreciation is provided on properties which are held for or under development.

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (g) Valuation of properties (Continued)

##### (iii) *Properties for sale*

Properties for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development cost and other direct costs attributable to the properties concerned until they reach a marketable state. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated costs necessary to make the sale.

##### (iv) *Leasehold land and buildings*

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

Any surplus arising on revaluation of leasehold 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, this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement 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 surplus is transferred to retained profits.

#### (h) Property, plant and equipment

Property, plant and equipment, other than leasehold land and buildings, are stated at cost less accumulated depreciation and accumulated impairment loss.

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, which include the estimated cost for dismantling, removing the asset and restoring the site.

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (h) Property, plant and equipment (Continued)

Expenditure incurred to replace a separate component of an item of property, plant and equipment, including major inspection and overhaul expenditure, the expenditure is capitalised and accounted for as a component of the asset. Other subsequent expenditure is capitalised as an additional cost of the asset only when it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over the relevant lease terms
Buildings	2% or over the relevant lease terms, if shorter
Leasehold improvement	30%
Furniture, fixtures and equipment	15%
Motor vehicles	15%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

#### (i) Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (i) Impairment loss (Continued)

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so 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 or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (k) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably.

- (i) Income arising from sale of properties is recognised upon completion of sale and title has passed to purchaser.
- (ii) Income from properties under development for sale is recognised upon completion of sale or when the relevant occupation permit is issued by the Building Authority, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in current liabilities.
- (iii) Rental income under operating leases is recognised in the period in which the properties are let out and on the straight-line basis over the terms of the relevant leases.



Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (k) Revenue recognition (Continued)

- (iv) Interest income is recognised on a time proportion basis on the principal outstanding and at the interest rate applicable.
- (v) Income from management services, property repair and maintenance services are recognised in the period when respective services are rendered.

#### (l) Foreign currencies

The Company maintains its accounting records in Hong Kong dollars and transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

#### (m) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

#### (n) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets or the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (o) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals receivable under operating leases are recognised as revenue on the straight-line basis over the lease terms. Lease incentives provided are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as revenue in the accounting period in which the properties are let out.

#### (p) Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

#### (q) Cash equivalents

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

#### (r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, which it is probable that will result in an outflow of economic benefits to settle the obligation, and the amount of the obligation can be estimated reliably. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (s) Pension costs

The Group operates a defined contribution pension scheme. Contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the scheme.

The Group's contributions to the mandatory provident fund scheme are expensed as incurred.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

When an employee leaves the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

#### (t) Provision for long services payment

Provision for long services payment is made for employees who have completed the required period of services and meet the required circumstances under the Hong Kong Employment Ordinance. Annual provisions are calculated according to the formula set out in the Employment Ordinance and are charged to the income statement.

#### (u) Related party

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.

#### (v) Segment reporting

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

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

Year ended 31 December 2001

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (v) Segment reporting (Continued)

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

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

### 4. TURNOVER AND REVENUE

The principal activities of the Group are property development, investment, trading and management in Hong Kong.

Turnover and revenue recognised by category are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Proceeds from sale of properties:		
Held for development	<b>10,000</b>	2,980
Investment properties	<b>290,000</b>	—
Held for sale	<b>312,958</b>	136,730
Rental income	<b>78,981</b>	67,489
Building management service income	<b>3,346</b>	3,641
Interest income	<b>2,234</b>	5,971
<b>Turnover</b>	<b>697,519</b>	216,811
Property repair and maintenance services income	<b>4,767</b>	3,362
Income from signage rental	<b>8,761</b>	7,116
Office facilities and service income	<b>543</b>	540
<b>Other revenue</b>	<b>14,071</b>	11,018
	<b>711,590</b>	227,829

Year ended 31 December 2001

**5. OTHER NET INCOME**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Compensation refund	—	520
Gain from cancellation of property sale and deposit forfeited	—	1,052
Waiver of bank creditors (Note)	<b>66,379</b>	—
Miscellaneous income	<b>10,243</b>	3,529
Gain on disposal of subsidiaries	<b>34</b>	—
	<b>76,656</b>	5,101

*Note:* Waiver of bank creditors represented bank loans and interest payable waived by certain bankers upon final settlement of bank loans.

**6. SEGMENT REPORTING**

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format, with each segment organised and managed separately.

*Business segments*

Property development	:	Property development and sales of properties
Property leasing	:	Property rental including signage rental
Telecommunications	:	Design, manufacturing and sales of telecommunication-related equipment

The Group's inter-segment transactions were related to rental and management fee charges. Terms of rental charge were similar to those contracted with third parties. Management fee charges were determined by directors.

Year ended 31 December 2001

**6. SEGMENT REPORTING (Continued)**

The following table shows revenue and profit information for these segments for the years ended 31 December 2001 and 2000, and certain asset and liability information regarding business segments as at 31 December 2001 and 2000.

	Property development		Property leasing		Telecommunications		Others		Elimination		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	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>Segment revenue</b>												
External customers	612,958	139,710	88,285	75,145	—	—	10,347	12,974	—	—	711,590	227,829
Inter-segments	—	—	2,445	3,435	—	—	16,295	12,435	(18,740)	(15,870)	—	—
	<b>612,958</b>	<b>139,710</b>	<b>90,730</b>	<b>78,580</b>	<b>—</b>	<b>—</b>	<b>26,642</b>	<b>25,409</b>	<b>(18,740)</b>	<b>(15,870)</b>	<b>711,590</b>	<b>227,829</b>
<b>Segment results</b>												
Inter-segment transactions	(83,233)	(81,857)	74,897	64,480	(145,248)	(31,629)	(11,015)	2,483			(164,599)	(46,523)
	—	200	4,195	1,830	—	—	(4,195)	(2,030)			—	—
<b>Contribution from operations</b>	<b>(83,233)</b>	<b>(81,657)</b>	<b>79,092</b>	<b>66,310</b>	<b>(145,248)</b>	<b>(31,629)</b>	<b>(15,210)</b>	<b>453</b>			<b>(164,599)</b>	<b>(46,523)</b>
Unallocated income and expenses											73,083	(96,697)
Loss from operations											(91,516)	(143,220)
Finance costs											(145,364)	(146,520)
Share of profits less losses of associates											12	13,164
Taxation											(3,053)	(1,200)
Minority interests											2,091	3,057
Net loss for the year											(237,830)	(274,719)
<b>Segment assets</b>	<b>38,846</b>	<b>90,989</b>	<b>2,049,191</b>	<b>2,790,015</b>	<b>189,008</b>	<b>342,679</b>	<b>69,030</b>	<b>48,096</b>			<b>2,346,075</b>	<b>3,271,779</b>
Interests in associates											2,966	2,972
Total assets											<b>2,349,041</b>	<b>3,274,751</b>
<b>Segment liabilities</b>	<b>15</b>	<b>20</b>	<b>52,880</b>	<b>35,744</b>	<b>902</b>	<b>8,951</b>	<b>67,825</b>	<b>55,870</b>			<b>121,622</b>	<b>100,585</b>
Unallocated liabilities											1,687,757	2,169,112
Total liabilities											<b>1,809,379</b>	<b>2,269,697</b>
<b>Other segment information extracted from the income statement and balance sheet</b>												
Capital expenditure	—	—	112,871	178,788	1,531	5,015	343	169			114,745	183,972
Depreciation	—	—	791	718	901	689	559	749			2,251	2,156
Amortisation of goodwill	—	—	—	—	14,921	12,329	—	—			14,921	12,329
Provision of doubtful debts	—	—	1,536	543	—	—	981	5,225			2,517	5,768
Provision for inventories	—	—	—	—	—	1,500	—	—			—	1,500
Provision for properties	29,500	71,206	—	—	—	—	—	—			29,500	71,206
Impairment loss on goodwill	—	—	—	—	120,000	—	—	—			120,000	—

The telecommunications segment is based in the People's Republic of China. Segment revenue and segment assets of all other segments are derived from and located in Hong Kong.

Year ended 31 December 2001

**7. OTHER OPERATING EXPENSES**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Amortisation of goodwill	<b>14,921</b>	12,329
Debt restructuring expenses	—	7,718
Impairment loss on goodwill	<b>120,000</b>	—
Provision for diminution in value of properties for sales, held for and under development	<b>29,500</b>	71,206
Provision for diminution in value of other investment	—	6,650
Provision for inventories	—	1,500
Provision for doubtful debts	<b>2,517</b>	5,768
Provision for deposits on acquisition of properties	—	41,003
Loss on disposal of subsidiaries	—	16,252
Loss on disposal of associates	—	6,354
	<b>166,938</b>	168,780

**8. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION**

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
<b>(a) Finance costs:</b>		
Interest on bank loans and overdrafts wholly repayable within five years	<b>133,628</b>	158,266
Interest on other borrowings wholly repayable within five years	<b>36,474</b>	38,832
Finance charges on obligations under finance leases	<b>15</b>	—
Total borrowing costs	<b>170,117</b>	197,098
Less: Amount capitalised into properties under development ( <i>note</i> )	<b>(24,753)</b>	(50,578)
	<b>145,364</b>	146,520

*Note:* The borrowing costs have been capitalised at a rate of 5.2%–9.5% per annum (2000: 9.7%–10.7%) for properties under development.

Year ended 31 December 2001

**8. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
<b>(b) Other items:</b>		
Cost of properties sold	<b>665,169</b>	149,195
Auditors' remuneration	<b>756</b>	851
Depreciation	<b>2,251</b>	2,156
Loss on disposal of investment properties	<b>60,982</b>	—
Loss on disposal of property, plant and equipment	<b>1,568</b>	115
Loss on disposal of properties held for development	<b>11,903</b>	2,501
Staff costs (other than directors' emoluments)	<b>16,082</b>	14,573
and after crediting:		
Gross rental income from investment properties	<b>(74,721)</b>	(58,473)
Less: Outgoings	<b>2,576</b>	2,721
Other rental income from other properties less outgoings	<b>(72,145)</b>	(55,752)
	<b>(4,169)</b>	(9,016)
	<b>(76,314)</b>	(64,768)



Year ended 31 December 2001

**9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT**

(a) Details of the emoluments paid to the directors are as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Fees		
Executive directors	—	—
Non-executive directors	<b>60</b>	60
	<b>60</b>	60
Other emoluments		
Salaries and other benefits	<b>2,711</b>	2,936
	<b>2,771</b>	2,996

The emoluments of the directors were within the following bands:

	<b>2001</b> <b>Number of</b> <b>directors</b>	2000 Number of directors
HK\$0–HK\$1,000,000	<b>7</b>	9
HK\$1,000,001–HK\$1,500,000	<b>1</b>	2

(b) Details of the emoluments paid to the five highest paid employees of the Group, excluding one (2000: Two) who were directors are as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Salaries and other benefits	<b>3,320</b>	2,612

One of the highest paid employees included in above became a Director during the year, of which salaries paid after becoming director had been included in note (a) above.

The emoluments to these employees fall within the following bands:

	<b>2001</b> <b>Number of</b> <b>employees</b>	2000 Number of employees
HK\$0–HK\$1,000,000	<b>4</b>	2
HK\$1,000,001–HK\$1,500,000	<b>—</b>	1

Year ended 31 December 2001

## 9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

- (c) The only employee's retirement scheme operated by one of the subsidiaries within the Group is a defined contribution scheme. Contributions are made by both the employer and the employees respectively at a rate of 5% on the employee's salaries.

Contributions to employee's retirement scheme incurred by the Group for the year amounted to HK\$491,000 (2000: HK\$12,000) and there were no forfeited contribution during the year (2000: Nil).

## 10. TAXATION

- (a) Hong Kong Profits Tax has been provided at the rate of 16% (2000: Nil) on the Group's estimated assessable profit for the year.

Taxation in the consolidated income statement represents:

	2001 HK\$'000	2000 HK\$'000
Hong Kong Profits Tax:		
Current year	3,794	—
Over provision in prior years	(741)	—
Share of taxation attributable to associates	—	1,200
	<b>3,053</b>	1,200

- (b) The major components of deferred taxation not credited for the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Tax losses arising	13,887	45,607
Increase in excess of depreciation over tax allowances	217	74
Decrease in excess of tax allowances over depreciation	12	82
	<b>14,116</b>	45,763

Year ended 31 December 2001

**10. TAXATION (Continued)**

- (c) At the balance sheet date, the major components of the potential deferred taxation assets (liabilities) of the Group not provided for are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Timing differences in respect of:		
Tax losses carried forward	<b>69,521</b>	55,634
Excess of depreciation over allowances	<b>291</b>	74
Excess of tax allowances over depreciation	<b>(10)</b>	(22)
	<b>69,802</b>	55,686

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

**11. NET LOSS FOR THE YEAR**

The net loss for the year is dealt with in the financial statements of the Company to the extent of loss of HK\$2,191,062,000 (2000: profit of HK\$10,815,000).

**12. LOSS PER SHARE**

The calculation of basic loss per share is based on current year's loss of HK\$237,830,000 (2000: HK\$274,719,000) and on the weighted average number of 3,116,402,151 shares (2000: 2,725,594,224 shares) in issue during the year.

No diluted loss per share has been presented for the two years ended 31 December 2001 because the conversion/exercise of the outstanding potential ordinary shares would have been anti-dilutive for these years.

Year ended 31 December 2001

**13. INVESTMENT PROPERTIES**

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
At beginning of year	<b>1,470,100</b>	1,450,100
Transfer from properties under development	<b>1,060,115</b>	—
Additions	<b>731</b>	—
Disposals	<b>(350,593)</b>	—
(Deficit) Surplus on revaluation (note 32)	<b>(200,075)</b>	20,000
At balance sheet date	<b>1,980,278</b>	1,470,100

All investment properties are situated in Hong Kong and held under long leases.

Investment properties were revalued at their estimated open market value at the balance sheet date by the directors with the assistance of professional valuers on an open market existing use basis. The deficit of HK\$200,075,000 arising on revaluation has been debited to the investment property revaluation reserve.

Year ended 31 December 2001

**14. PROPERTY, PLANT AND EQUIPMENT****The Group**

	<b>Leasehold land and buildings</b>	<b>Leasehold improvement</b>	<b>Furniture, fixtures &amp; equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>					
At beginning of year	4,910	9,019	8,548	1,870	24,347
Additions	973	547	973	—	2,493
Disposals	—	(1,122)	(586)	—	(1,708)
<b>At balance sheet date</b>	<b>5,883</b>	<b>8,444</b>	<b>8,935</b>	<b>1,870</b>	<b>25,132</b>
<b>Accumulated depreciation</b>					
At beginning of year	109	6,098	3,078	463	9,748
Charge for the year	109	729	1,129	284	2,251
Eliminated on disposals	—	(1)	(139)	—	(140)
<b>At balance sheet date</b>	<b>218</b>	<b>6,826</b>	<b>4,068</b>	<b>747</b>	<b>11,859</b>
<b>Net book value</b>					
<b>At balance sheet date</b>	<b>5,665</b>	<b>1,618</b>	<b>4,867</b>	<b>1,123</b>	<b>13,273</b>
At beginning of year	4,801	2,921	5,470	1,407	14,599

Leasehold land and buildings are situated in the People's Republic of China and held under medium-term leases.

The net book value of the Group's property, plant and equipment includes an amount of HK\$116,000 (2000: HK\$Nil) in respect of assets held under finance leases.

Year ended 31 December 2001

## 15. PROPERTIES HELD FOR DEVELOPMENT

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
At beginning of year	<b>29,721</b>	73,261
Disposals	<b>(21,898)</b>	(5,481)
Transfer to properties held for development for sales	—	(30,510)
Impairment loss	—	(7,549)
At balance sheet date	<b>7,823</b>	29,721

The properties held for development are situated in Hong Kong and are held under long leases.

## 16. PROPERTIES UNDER DEVELOPMENT

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Land and development costs	—	751,510
Borrowing cost capitalised	—	197,084
At balance sheet date	—	948,594

The movement of properties under development during the year is as follows:

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
At beginning of year	<b>948,594</b>	771,097
Additions	<b>86,768</b>	126,919
Borrowing cost capitalised	<b>24,753</b>	50,578
Transfer to investment properties	<b>(1,060,115)</b>	—
At balance sheet date	—	948,594

The properties under development are situated in Hong Kong and are held under long leases.

Year ended 31 December 2001

**17. INTERESTS IN SUBSIDIARIES**

	<b>The Company</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>2,318,856</b>	2,318,856
Impairment loss	<b>(1,618,856)</b>	(28,000)
	<b>700,000</b>	2,290,856
Amounts due from subsidiaries	<b>1,477,671</b>	1,582,143
Provision for doubtful debts	<b>(1,477,671)</b>	(902,222)
	<b>—</b>	679,921
	<b>700,000</b>	2,970,777

Particulars of the principal subsidiaries are shown in note 47(a).

**18. GOODWILL**

	<b>The Group</b>
	HK\$'000
<b>At beginning of year</b>	
Cost	298,422
Accumulated amortisation	(12,329)
Opening carrying amount	286,093
Amortisation charges	(14,921)
Impairment loss	(120,000)
<b>Closing carrying amount</b>	<b>151,172</b>
<b>At balance sheet</b>	
Cost	298,422
Accumulated amortisation and impairment loss	(147,250)
<b>Closing carrying amount</b>	<b>151,172</b>

Year ended 31 December 2001

## 18. GOODWILL (Continued)

As at 31 December 2001, the Group performed an assessment of the fair value of its goodwill based on value in use (present value of estimated future cash flows) of the assets as determined at the cash generating unit (the individual business operations), with reference to a business valuation performed by a firm of professional valuers. As a result of this assessment, an impairment loss of HK\$120,000,000 has been made on goodwill arising from acquisition of a subsidiary engaging in manufacturing and trading of telecommunication-related equipment.

## 19. INTERESTS IN ASSOCIATES

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Share of net liabilities	<b>(12,597)</b>	(12,609)
Amounts due from associates	<b>15,555</b>	15,573
Premium on acquisition	<b>8</b>	8
	<b>2,966</b>	2,972

Particulars of the associates are shown in note 47(b).

## 20. OTHER INVESTMENT

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Equity securities, unlisted	<b>6,650</b>	6,650
Provision for diminution in value	<b>(6,650)</b>	(6,650)
	<b>—</b>	—

Other investment represents 35% of the issued ordinary share capital of an unlisted company incorporated in Hong Kong.

In the opinion of the directors, the Group has no significant influence over the financial and operating policy decisions. As a result, the investment is classified as other investment.



Year ended 31 December 2001

**21. INSTALMENTS RECEIVABLE**

	Note	The Group	
		2001 HK\$'000	2000 HK\$'000
Secondary mortgage loans	(a)	<b>5,807</b>	12,546
Long-term receivable	(b)	<b>12,250</b>	—
		<b>18,057</b>	12,546
Current portion		<b>3,004</b>	4,309
Non-current portion		<b>15,053</b>	8,237
		<b>18,057</b>	12,546

(a) The amount represents the principal amounts of secondary mortgage loan to be received by instalments less any provision for doubtful debts. The gross amounts repayable by mortgagees where appropriate include principal and interest accrued on the balance outstanding at contracted rates.

(b) The amount represents portion of sale proceeds of disposal of investment properties to be received by instalments.

**22. PROPERTIES FOR SALE**

	The Group	
	2001 HK\$'000	2000 HK\$'000
Under development	<b>26,595</b>	340,987
Held for development	<b>11,480</b>	30,510
Completed properties	<b>3,499</b>	26,244
	<b>41,574</b>	397,741

At the balance sheet date, the carrying amount of properties for sale that were stated at net realisable value amounted to HK\$30,775,000 (2000: HK\$397,741,000).

Year ended 31 December 2001

### 23. INVENTORIES

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>4,755</b>	4,511
Work in progress	<b>20,819</b>	15,201
	<b>25,574</b>	19,712

At the balance sheet date, the carrying amount of inventories that were carried at net realisable value amounted to approximately HK\$4,755,000 (2000: HK\$1,513,000).

### 24. AGING ANALYSIS OF THE TRADE RECEIVABLES

The Group maintains a controlled credit policy. The aging analysis of the trade receivables at the balance sheet date is as follows:

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
0–30 days	<b>1,937</b>	1,104
31–90 days	<b>1,877</b>	516
After 90 days but within one year	<b>2,610</b>	289
	<b>6,424</b>	1,909

### 25. DEPOSITS ON ACQUISITION OF PROPERTIES

Included in the balance is the net carrying amount of deposits of HK\$16,641,000 relating to legal proceedings involving two wholly owned subsidiaries of the Company. Details are shown in note 44(b) to the financial statements.

### 26. AGING ANALYSIS OF THE TRADE PAYABLES

All the trade payables of HK\$15,276,000 (2000: HK\$16,232,000) were within 30 days at the balance sheet date.

Year ended 31 December 2001

**27. INTEREST-BEARING BORROWINGS**

	<b>The Group</b>		<b>The Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Wholly repayable within five years:				
Bank loans – secured	<b>1,327,582</b>	1,804,992	–	–
Bank overdrafts – secured	–	11,316	–	–
Other loans	<b>93,302</b>	75,611	–	–
Amount due to ultimate holding company (note b)	<b>236,253</b>	217,470	<b>236,253</b>	217,470
	<b>1,657,137</b>	2,109,389	<b>236,253</b>	217,470
Portion classified as current liabilities	<b>(757)</b>	(132,716)	–	–
Long-term portion	<b>1,656,380</b>	1,976,673	<b>236,253</b>	217,470

As detailed in note 1, all bank loans are classified as non-current liabilities.

Other loans are unsecured and interest bearing at 19.25%–24%.

At 31 December 2001, interest-bearing borrowings were repayable as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Within 1 year or on demand	<b>757</b>	132,716	–	–
After 1 year but within 2 years	<b>359,024</b>	1,859,220	–	217,470
After 2 years but within 5 years	<b>796,078</b>	117,453	–	–
After 5 years	<b>501,278</b>	–	<b>236,253</b>	–
	<b>1,656,380</b>	1,976,673	<b>236,253</b>	217,470
	<b>1,657,137</b>	2,109,389	<b>236,253</b>	217,470

Year ended 31 December 2001

## 27. INTEREST-BEARING BORROWINGS (Continued)

- (a) The Group had previously obtained an agreement with its bankers to restructure payments of outstanding bank loans and related interest payable for a standstill until 31 January 2002 (the "Debt Restructure Agreement").

The Debt Restructure Agreement involves, amongst other things, the following:

- a standstill arrangement until 31 January 2002;
  - provision of new funding to finance the completion of the Group's two property development projects, which were completed during the year ended 31 December 2001 and classified as investment properties in the balance sheet as at that date; and
  - the issue of unlisted warrants to each of the Group's banks (notes 31 and 44(a)).
- (b) Pursuant to the Debt Restructure Agreement, the amount due to ultimate holding company is subordinated to bank borrowings. Save as disclosed herein, the amount is unsecured, interest bearing at Hong Kong dollars prime lending rate plus 1.75% per annum.

As at date of these financial statements, the Group's negotiations with its bankers for refinancing of its bank borrowings have come to an advanced stage. As the amount is subordinated to bank borrowings, the amount due is classified as non-current liabilities.

## 28. OBLIGATIONS UNDER FINANCE LEASES

At the balance sheet date, the Group had obligations under finance leases repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts payable under finance leases				
Within one year	<b>63</b>	—	<b>14</b>	—
In the second to fifth years inclusive	<b>159</b>	—	<b>105</b>	—
	<b>222</b>	—	<b>119</b>	—
Less: Future finance charges	<b>(103)</b>	—	<b>—</b>	—
Present value of lease obligations	<b>119</b>	—	<b>119</b>	—

Year ended 31 December 2001

**29. SHARE CAPITAL**

	2001		2000	
	Number of shares	HK\$'000	Number of shares	HK\$'000
<i>Authorised:</i>				
Ordinary share of HK\$0.10 each	5,000,000,000	500,000	5,000,000,000	500,000
			<b>Number of shares of HK\$0.1 each</b>	<b>Nominal value HK\$'000</b>
<i>Issued and fully paid:</i>				
At 1 January 2000			1,859,501,312	185,950
Private placings			1,083,750,500	108,375
Exercise of warrants			173,150,339	17,315
<b>At 31 December 2000 and 31 December 2001</b>			3,116,402,151	311,640

The movements of the issued share capital of the Company for the two years ended 31 December 2001 are as follows:

- (a) On 2 February 2000, 41,562,500 new shares of HK\$0.10 each of the Company were issued to iNet Solutions Limited at the price of HK\$0.16 per share in satisfaction of part of the consideration for the acquisition by Soundwill Technology Company Limited ("Soundwill Technology"), a wholly-owned subsidiary of the Company, of 7,000,000 shares of Netwalk Technology Company Limited, an other investment to the Group.
- (b) On 3 February 2000, 168,000,000 and 168,000,000 new shares of HK\$0.10 each of the Company were issued to independent third party investors through a private placement arrangement involving Ko Bee Limited ("KBL"), a company wholly owned by Madam Foo Kam Chu, Grace ("Mrs. Chan"), and KBL itself at the price of HK\$0.168 per share respectively. The aggregate subscription consideration for the 336,000,000 new shares was satisfied as to 168,000,000 new shares by way of cash amounted to approximately HK\$27,324,000 (after deducting expenses of approximately HK\$900,000) and as to 168,000,000 new shares by way of a set-off of part of the principal amount of an interest-bearing loan extended by KBL to the Company of HK\$28,224,000. The net cash proceeds from the issue were used as general working capital.

Year ended 31 December 2001

## 29. SHARE CAPITAL (Continued)

- (c) On 18 April 2000, 135,000,000 new shares of HK\$0.10 each of the Company were issued to independent third party investors through a private placement arrangement involving KBL at the price of HK\$0.63 per share. The net cash proceeds of approximately HK\$82,114,000 from the issue were mainly used by Soundwill Technology to subscribe for 200,000 shares of Vision Telecommunications Holdings Limited ("Vision"), which then became a subsidiary of the Company, in which Mrs. Chan has beneficial interests.
- (d) On 7 June 2000, 456,188,000 new shares of HK\$0.10 each of the Company were issued to KBL at the price of HK\$0.63 per share as consideration shares to satisfy the total consideration of approximately HK\$287,398,000 for the acquisition by Soundwill Technology of additional 700,000 shares of Vision.
- (e) On 20 September 2000, 115,000,000 new shares of HK\$0.10 each of the Company were issued to independent third party investors through a private placement arrangement involving KBL at the price of HK\$0.128 per share. The net cash proceeds of approximately HK\$14,220,000 from the issue were used as general working capital.
- (f) In 2000, an aggregate 173,150,339 new shares of HK\$0.10 each of the Company were issued to certain warrant holders upon exercise of warrants at the cash subscription price of HK\$0.22 per share.

These shares issued during the years rank pari passu in all respects with the then existing shares.

Year ended 31 December 2001

### 30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's Directors and other employees of the Group. The Scheme became effective on 25 February 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the issued share capital of the Company in issue at any time excluding any shares issued pursuant to the Scheme. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 260,340,215, which represented approximately 8.35% of the Company's shares in issue as at that date. The exercise price was equal to the higher of the nominal value of the shares and a price not less than 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date the options were granted.

The Stock Exchange has introduced a number of changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001. An option granted under the Scheme shall be subject to the new changes which include, *inter alia*, the followings:

- (a) the maximum number of shares issuable under the share option to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting;
- (b) share options granted to a Director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors; and
- (c) the exercise price of the share options is determined by Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

The Company shall amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

Year ended 31 December 2001

**30. SHARE OPTION SCHEME (Continued)**

At the balance sheet date, there were (i) 31,100,000 outstanding options granted to several Directors; and (ii) 20,200,000 outstanding options granted to various employees of the Company. Details of the said outstanding options are as follows:

Name of grantee	Date of grant	Exercise price	Period within which option can be exercised	at 1 January 2001	Number of options granted during the year	lapsed during the year	at 31 December 2001
<b>Directors</b>							
Foo Kam Chu, Grace	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	3,000,000	—	—	<b>3,000,000</b>
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	3,500,000	—	—	<b>3,500,000</b>
	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	—	3,800,000 <sup>1</sup>	—	<b>3,800,000</b>
Leung Yeuk Kuk, Joesph	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	1,000,000	—	—	<b>1,000,000</b>
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	2,000,000	—	—	<b>2,000,000</b>
	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	—	2,500,000 <sup>1</sup>	—	<b>2,500,000</b>
Liu Guoyuan	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	—	3,800,000 <sup>1</sup>	—	<b>3,800,000</b>
Kwong Che Keung, Gordon	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	—	2,000,000 <sup>1</sup>	—	<b>2,000,000</b>
Chan Wai Ling	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	—	3,000,000 <sup>1</sup>	—	<b>3,000,000</b>
Tse Chun Kong, Thomas	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	2,000,000	—	—	<b>2,000,000</b>
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	2,000,000	—	—	<b>2,000,000</b>
	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	—	2,500,000 <sup>1</sup>	—	<b>2,500,000</b>
<b>Other Employees</b>	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	3,000,000	—	—	<b>3,000,000</b>
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	3,500,000	—	—	<b>3,500,000</b>
	1 June 2000	HK\$0.248	1 December 2000 to 24 February 2007	2,700,000	—	1,200,000 <sup>2</sup>	<b>1,500,000</b>
	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	—	40,200,000 <sup>1</sup>	28,000,000 <sup>2</sup>	<b>12,200,000</b>



Year ended 31 December 2001

**30. SHARE OPTION SCHEME (Continued)***Notes:*

1. The closing market price per share at the date preceding the date on which the options were granted was HK\$0.060.
2. The director(s)/employee(s) resigned during the year and the options granted to them became lapse.
3. None of the options granted was exercised during the year.

**31. SHARE WARRANTS**

On 15 November 2000, a total 184,381,339 units of unlisted warrants (the "Unlisted Warrants") were granted by the Company to the Group's bankers pursuant to the Debt Restructure Agreement. Each of the Unlisted Warrants entitles the warrant-holder to subscribe for one share of the Company of HK\$0.10 each at the following price within the period of one year from 31 January 2002:

the lower of:

- (i) HK\$0.249; or
- (ii) 80% of the average closing price of the shares of the Company quoted by The Stock Exchange for the ten trading days immediately prior to 31 January 2002.

But in any event not less than HK\$0.10.

Year ended 31 December 2001

**32. RESERVES****The Group**

	<b>Share premium (Note (a))</b>	<b>Investment property revaluation reserve (Note (b))</b>	<b>Accumulated losses</b>	<b>Special reserve (Note (c))</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	702,332	643,990	(802,018)	10,030	554,334
Premium on shares issued	359,005	–	–	–	359,005
Surplus arising on revaluation	–	20,000	–	–	20,000
Loss for the year	–	–	(274,719)	–	(274,719)
At 31 December 2000	1,061,337	663,990	(1,076,737)	10,030	658,620
Revaluation written off	–	(193)	–	–	(193)
Deficit arising on revaluation	–	(200,075)	–	–	(200,075)
Loss for the year	–	–	(237,830)	–	(237,830)
<b>At 31 December 2001</b>	<b>1,061,337</b>	<b>463,722</b>	<b>(1,314,567)</b>	<b>10,030</b>	<b>220,522</b>

The accumulated losses of the Group include losses of HK\$12,600,000 (2000: HK\$12,612,000) accumulated by associates of the Group.

Note:

- (a) Share premium represents the excess of consideration received over the par value of shares issued.
- (b) The investment property revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for the revaluation of investment properties.
- (c) The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company in exchange for the nominal value of the share capital of the subsidiary companies pursuant to the Group's re-organisation in 1997.

Year ended 31 December 2001

**32. RESERVES (Continued)****The Company**

	<b>Share premium (Note (a)) HK\$'000</b>	<b>Contributed surplus (Note (b)) HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2000	702,332	2,228,856	(58,566)	2,872,622
Premium on shares issued	359,005	—	—	359,005
Loss for the year	—	—	(891,407)	(891,407)
At 31 December 2000	1,061,337	2,228,856	(949,973)	2,340,220
Loss for the year	—	—	(2,191,062)	(2,191,062)
<b>At 31 December 2001</b>	<b>1,061,337</b>	<b>2,228,856</b>	<b>(3,141,035)</b>	<b>149,158</b>

*Note:*

- (a) Share premium represents the excess of consideration received over the par value of shares issued.
- (b) The balance of contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of Lucky Spark Limited (a subsidiary) and the value of the net underlying assets of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to the shareholders under certain circumstances. However, the Company cannot declare or pay a dividend or make a distribution out of contribution surplus if:
- (1) it is, or would after the payment be, unable to pay its liabilities as they become due or
  - (2) 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.

Year ended 31 December 2001

**33. RECONCILIATION OF LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Loss from ordinary activities before taxation	<b>(236,868)</b>	(276,576)
Interest income	<b>(2,234)</b>	(5,971)
Interest expenses	<b>145,364</b>	146,520
Depreciation	<b>2,251</b>	2,156
Amortisation of goodwill	<b>14,921</b>	12,329
Impairment loss on goodwill	<b>120,000</b>	—
Share of profits less losses of associates	<b>(12)</b>	(13,164)
Waiver of bank creditors	<b>(66,379)</b>	—
Loss on disposal of property, plant and equipment	<b>1,568</b>	115
Loss on disposal of investment properties	<b>60,982</b>	—
Loss on disposal of properties held for development	<b>11,903</b>	2,501
(Gain) Loss on disposal of subsidiaries	<b>(34)</b>	16,252
Loss on disposal of associates	<b>—</b>	6,354
Provision for diminution in value of properties	<b>29,500</b>	71,206
Provision for diminution in value of other investment	<b>—</b>	6,650
Provision for inventories	<b>—</b>	1,500
Provision for deposits on acquisition of properties	<b>—</b>	41,003
Written off of revaluation reserve	<b>(193)</b>	—
Provision for doubtful debts	<b>2,517</b>	5,768
Decrease in properties for sale	<b>291,775</b>	125,237
Increase in restricted bank balances	<b>(13,441)</b>	(4,714)
Increase in inventories	<b>(5,862)</b>	(14,700)
Increase in debtors, prepayments and deposits and instalments receivable	<b>(16,232)</b>	(5,352)
(Decrease) Increase in creditors, accruals and deposit received	<b>(15,085)</b>	49,554
<b>Net cash inflow from operating activities</b>	<b>324,441</b>	166,668

Year ended 31 December 2001

**34. ACQUISITION OF SUBSIDIARIES**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Property, plant and equipment	—	6,447
Inventories	—	6,512
Debtors, prepayments and deposits	—	2,743
Bank balances and cash	—	82,039
Creditors, accruals and deposits received	—	(18,785)
Minority interests	—	(7,866)
Net assets acquired	—	71,090
Goodwill on acquisition	—	298,422
Consideration	—	369,512
Satisfied by:		
Cash	—	82,114
Shares issued (note 36)	—	287,398
	—	369,512

In 2000, the subsidiaries acquired contributed HK\$17,048,000 to the Group's net operating cash flows, received HK\$1,472,000 in respect of the net returns on investments and servicing of finance, utilised HK\$5,014,000 for investing activities and repaid HK\$338,000 for financing activities.

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

Cash consideration paid	—	(82,114)
Bank balances and cash acquired	—	82,039
	—	(75)

Year ended 31 December 2001

**35. DISPOSAL OF SUBSIDIARIES**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	112
Properties for sale	<b>34,892</b>	—
Debtors, prepayment and deposits	—	21,670
Bank balances and cash	<b>2</b>	33
Creditors and accruals	<b>(34,928)</b>	(5,558)
	<b>(34)</b>	16,257
Gain (Loss) on disposal of subsidiaries	<b>34</b>	(16,252)
Consideration	—	5
Satisfied by:		
Cash	—	5

The subsidiaries disposed had no significant contributions to the Group's net operating cash flows in respect of operating activities, returns on investments and servicing of finance, taxation, investing activities or financing for the years.

Analysis of the net cash outflow of cash and cash equivalents in respect of the disposals of subsidiaries is as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Cash and cash equivalents disposed of:		
Bank balances and cash	<b>(2)</b>	(33)
Cash consideration received	—	5
	<b>(2)</b>	(28)

Year ended 31 December 2001

**36. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	Convertible bonds	Bank and other loans	Trust receipt loans	Amount due to ultimate holding company	Pledged bank deposits	Share capital and premium	Amounts due to minority shareholders	Finance lease obligations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	200,000	1,809,530	4,977	—	(3,334)	888,282	32,488	—
Interest accrued	14,756*	—	—	2,714*	—	—	—	—
New loan raised	—	61,500	—	—	—	—	—	—
Repayments during the year	—	(160,191)	—	—	—	—	—	—
Consolidation of bank loans upon debt restructuring:								
— trust receipt loans	—	4,977*	(4,977)*	—	—	—	—	—
— interest payable	—	193,011*	—	—	—	—	—	—
Substituted by amount due to ultimate holding company	(214,756)*	—	—	214,756*	—	—	—	—
Net proceeds from issues of shares	—	—	—	—	—	162,423	—	—
Issue of shares for non- cash transactions:								
Acquisition of subsidiaries (Note 34)	—	—	—	—	—	287,398*	—	—
Acquisition of other investment	—	—	—	—	—	6,650*	—	—
Repayment of other loan	—	(28,224)*	—	—	—	28,224*	—	—
Decrease in amounts due to minority shareholders	—	—	—	—	—	—	(2,496)	—
Decrease in pledged bank deposits	—	—	—	—	3,334	—	—	—
At 31 December 2000 and 1 January 2001	—	1,880,603	—	217,470	—	1,372,977	29,992	—
Interest accrued	—	17,691*	—	18,783*	—	—	—	—
New loan raised	—	133,722	—	—	—	—	—	—
Repayments during the year	—	(577,514)	—	—	—	—	—	—
Waiver of bank loans	—	(33,618)*	—	—	—	—	—	—
Inception of finance lease contracts	—	—	—	—	—	—	—	120
Repayments of finance lease obligations	—	—	—	—	—	—	—	(1)
Disposal of subsidiaries	—	—	—	—	—	—	(25,203)*	—
<b>At 31 December 2001</b>	<b>—</b>	<b>1,420,884</b>	<b>—</b>	<b>236,253</b>	<b>—</b>	<b>1,372,977</b>	<b>4,789</b>	<b>119</b>

\* These are the major non-cash transactions of the Group during the respective year.

Year ended 31 December 2001

### 37. ANALYSIS OF CASH AND CASH EQUIVALENTS

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Pledged bank deposits for current bank borrowings	<b>5,840</b>	—
Bank balances and cash	<b>12,456</b>	24,290
Bank overdrafts – secured	<b>—</b>	(11,316)
	<b>18,296</b>	12,974

### 38. RELATED PARTY TRANSACTIONS

Interest accrued on amount due to ultimate holding company, KBL, amounted to HK\$18,783,000 (2000: HK\$2,714,000) during the year.

The above material transaction with related party were, in the opinion of the directors, carried out in the ordinary course of business during the year in addition to those disclosed elsewhere in the financial statements.

### 39. RESTRICTED BANK BALANCES

Restricted bank balances represent bank balances operated by bank creditors for depositing and distributing rental under assignment.

### 40. PLEDGE OF ASSETS

At the balance sheet date, properties of the Group with an aggregate net book value of HK\$2,002,792,000 (2000: HK\$2,741,460,000) and bank deposits of HK\$5,840,000 (2000: HK\$Nil) were pledged to secure general banking facilities to the extent of HK\$1,336,813,000 (2000: HK\$1,907,230,000), of which HK\$1,327,582,000 (2000: HK\$1,816,308,000) were utilised.



Year ended 31 December 2001

**41. LONG SERVICE PAYMENTS**

At 31 December 2001, the Group had a number of employees who had completed the required number of years of service under Hong Kong Employment Ordinance ("the Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31 December 2001 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$884,000 (2000: HK\$915,000). No provision has been made in the financial statements in respect of such long service payments.

**42. CAPITAL COMMITMENTS**

At the balance sheet date, the Group had outstanding capital commitments, so far as not provided for in the financial statements, as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Property development and renovation expenditure:		
– contracted for	–	59,064
– authorised but not contracted for	–	31,515
	<b>–</b>	<b>90,579</b>

**43. OPERATING LEASE ARRANGEMENTS**

The Group leases out all its investment properties under operating leases with average lease terms of 3 years. The future aggregate minimum rental receivable under non cancellable operating leases are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>77,293</b>	51,045
In the second to fifth years inclusive	<b>79,196</b>	32,154
	<b>156,489</b>	<b>83,199</b>

Year ended 31 December 2001

#### 44. CONTINGENT LIABILITIES

- (a) According to the Debt Restructure Agreement, the Company has issued to its bankers 184,381,339 units of unlisted warrants, pursuant to which the Company has guaranteed the bankers a minimum return on the exercise of each warrant. The maximum liability of the Company in this regard is approximately HK\$18,000,000 (2000: HK\$18,000,000).
- (b) The two property related proceedings relating to the sale and purchase of certain properties involving two wholly owned subsidiaries of the Company are still on-going. According to a judgement dated 3 December 2001, it was ordered that the relevant agreements relating to one of such proceedings wherein the subsidiary of the Company is the plaintiff thereof be rescinded and the deposit of HK\$33,000,000 be refunded to the subsidiary of the Company. The defendants of the proceeding have lodged an appeal against such court order. There is no material change to the other proceeding wherein the subsidiary of the Company is the defendant thereof since the publication of the 2001 Interim Report. According to the latest legal advice taken by the Company, the subsidiaries of the Company and their respective shareholders would not, in any event, incur any further liability other than the deposits of HK\$33,000,000 and HK\$65,000,000 and/or costs.
- (c) At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee for banking facilities utilised by subsidiaries amounting to HK\$1,325,124,000 (2000: HK\$1,816,308,000).

Year ended 31 December 2001

#### 45. POST BALANCE SHEET EVENTS

On 28 February 2002, the Group has entered into shares subscription agreements with independent third parties. Pursuant to the agreements, the independent third parties will subscribe shares of the Group's two subsidiaries, Well Pacific Development Limited ("Well Pacific") and Super Keep Investment Limited ("Super Keep"). Details of the agreements are as follows:

- (a) Under the shares subscription agreement of Well Pacific,
  - (i) the authorised share capital of Well Pacific shall be increased from HK\$10,000 to HK\$20,000 comprising of 20,000 ordinary shares of HK\$1.00 each;
  - (ii) all existing ordinary shares of Well Pacific shall be converted to non-voting deferred shares ranking pari passu in all respects with the existing non-voting deferred shares;
  - (iii) Well Pacific will issue and the independent third parties will subscribe for 10,000 ordinary shares at the par value of HK\$1.00 each;
  - (iv) an option will be granted to the independent third parties at a consideration of HK\$1.00 to acquire the existing and newly converted non-voting deferred shares of Well Pacific within a period of 12 months from the date of completion; and
  - (v) The Group will assign to the independent third parties the loan due by Well Pacific to the Group for price of HK\$1.00 upon the completion of the agreement.

The consideration payable by the independent third parties for the above re-organisation is HK\$300,000,000 and the agreement is to be completed on or before 16 April 2002. Upon completion, the Group, other than the non-voting deferred shares (subject to the said option), will have no equity interests in Well Pacific. The net proceeds from the re-organisation will be applied to repay bank borrowings of Well Pacific.

- (b) Under the shares subscription agreement of Super Keep,
  - (i) the authorised share capital of Super Keep shall be increased from HK\$10,000 to HK\$20,000 comprising of 20,000 ordinary shares of HK\$1.00 each;
  - (ii) Super Keep will issue and the independent third party will subscribe for 9,998 ordinary shares at the par value of HK\$1.00 each; and
  - (iii) The independent third party will advance a loan of HK\$50,000,000 to Super Keep for a development project of residential properties.

Year ended 31 December 2001

#### 45. POST BALANCE SHEET EVENTS (Continued)

The consideration payable by the independent third party for the above re-organisation is HK\$10,000,000 and the agreement is to be completed on or before 27 August 2003. Upon completion, the Group will hold 50% of the enlarged issued ordinary shares of Super Keep which will be treated as a subsidiary of the Group. The proceeds from the re-organisation and the loan from independent third party will be applied to the development project of residential properties of Super Keep.

- (c) The extracts of audited financial information of Well Pacific for the year ended 31 December 2001 are set out below:

	HK\$'000
<b>Income statement</b>	
Turnover	11,359
Loss from operations	(198,839)
Loss on disposal of investment properties	(60,981)
Finance costs	(14,265)
Loss for the year	(274,085)
<b>Balance sheet</b>	
Investment properties	300,000
Other assets	21,836
Due to the Group	(271,405)
Other liabilities	(324,040)
Net liabilities	(273,609)

#### 46. ULTIMATE HOLDING COMPANY

The Directors consider the Company's ultimate holding company is Ko Bee Limited, a company incorporated in the British Virgin Islands with limited liability.

Year ended 31 December 2001

**47. PRINCIPAL SUBSIDIARIES AND ASSOCIATES****(a) Details of principal subsidiaries**

In the opinion of the directors, a complete list of the particulars of all subsidiaries and associates will be of excessive length and therefore the table below list the principal subsidiaries and associates which materially affect the result or assets of the Group.

All the principal subsidiaries and associates set out below, other than Soundwill (BVI) Limited, which is a direct subsidiary of the Company, are indirectly held by the Company.

Name of subsidiaries	Particulars of issued shares (unless otherwise stated below)		Principal activities
	Number of Ordinary shares (unless otherwise stated below)	Par value (unless otherwise stated below)	
		HK\$	
Asia View Holdings Limited (note 2)	10,000	1	Property development
Champion Fund Limited (note 2)	10,000	1	Property development
Digital World Limited	2	1	Property development
Eternal Bright Construction Engineering Limited	2	1	Building contracting
First Link Holdings Limited	2	1	Property development
Fortune Regent Limited	100	1	Property development
Future Base Limited (note 2)	2	1	Property development
Gold Smart (Asia) Limited	2	1	Subletting
Gold Step (Asia) Limited	9,998	1	Property development
	2 non-voting deferred	1	
Golden Relay Company Limited	99,998	1	Property development
	2 non-voting deferred	1	and property investment
Goldwell Property Management Limited	10,000	1	Provision of building management service
Grainview Investment Limited	99	1	Property development
	1 non-voting deferred	1	
Optilink Technologies Company Limited (notes 5 and 7)	Registered capital of RMB10,000,000	N/A	Design, manufacturing and sales of dense wavelength division multiplexing system
Pacific Well Realty Limited (note 2)	2	1	Property investment
Sound Bright Development Limited (notes 2 and 3)	1	US\$1	Investment holding

Year ended 31 December 2001

**47. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)****(a) Details of principal subsidiaries (Continued)**

Name of subsidiaries	Particulars of issued shares (unless otherwise stated below)		Principal activities
	Number of Ordinary shares (unless otherwise stated below)	Par value (unless otherwise stated below)	
			HK\$
Soundwill (BVI) Limited (note 4)	100,001,000	1	Investment holding
Soundwill Finance Company Limited	2	1	Loan financing
Soundwill (Hong Kong) Limited (note 2)	100,000	1	Provision of accountancy and administration services
Soundwill Real Estate Agency Limited (note 2)	2	1	Provision of real estate agency services
Soundwill Technology Company Limited (note 2)	100	1	Investment holding
Soundwill Treasury Limited (note 2)	2	1	Central fund management
Super Keep Investment Limited (note 2)	9,998	1	Property development
	2 non-voting deferred	1	
Top Hill Holdings Limited (notes 1 and 2)	1,000	1	Property development
Vision Telecommunications Limited (note 6)	10,000	1	Investment holding
Vision Telecommunications Holdings Limited (notes 3 and 6)	1,000,000	US\$1	Investment holding
Wales Limited	2	1	Property development
Well Pacific Development Limited	9,998	1	Property development
	2 non-voting deferred	1	
Well Youth Investment Limited (note 2)	9,998	1	Property development
	2 non-voting deferred	1	
The Cosmopolitan Business Consultant Limited (formerly Winland Investment Limited)	100	1	Property development
Winsford Enterprises Limited (note 2)	10,000	1	Property development
Wonder Mark Limited (note 2)	1,000,000	1	Property development
Yield Success Development Limited (note 2)	10,000	1	Property development

Year ended 31 December 2001

**47. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)****(a) Details of principal subsidiaries (Continued)***Notes:*

- (1) The Group has 70% equity interest in the subsidiaries;
- (2) Subsidiaries not audited by Moores Rowland;
- (3) Subsidiaries which were incorporated in the British Virgin Islands and operate in Hong Kong;
- (4) Subsidiary which is a direct subsidiary of the Company and was incorporated in the British Virgin Islands and operates in Hong Kong;
- (5) Subsidiary which was incorporated and operates in the People's Republic of China;
- (6) The Group has 90% equity interest in these subsidiaries; and
- (7) The Group has 63% equity interest in the subsidiary.

**(b) Details of principal associates**

<b>Name of associates</b>	<b>Place of incorporation and operation</b>	<b>% of issued ordinary shares held</b>	<b>Principal activities</b>
Happy Wealth Industries Limited	Hong Kong	30%	Property investment
Wellway Estates Limited	Hong Kong	30%	Investment holding and property investment

**48. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current year's presentation because management believes that current year's presentation is more appropriate to reflect the Group's financial position and operating results.