



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st 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 principal activities of the Group are property development and investment, raw steel and material trading, hotel operation and investment holding.

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 ("SSAP(s)") 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 revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior year.

Leases

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have no effect on the results for the current or prior accounting periods. Disclosures for the Group's leasing arrangements have been modified so as to comply with requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

All significant intercompany transactions and balances 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.

Investment properties

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

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

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

Property, plant and equipment

(i) *Hotel properties*

Hotel properties are stated in the balance sheet at their open market value on independent professional valuations at each balance sheet date. Any revaluation increase arising on the revaluation of hotel properties is credited to the hotel property revaluation reserve except to the extent that it reverses a revaluation decrease of the same hotel property previously recognised as an expense, in which case this increase is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of a hotel property 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 hotel property. On the subsequent sale or retirement of a revalued hotel property, the balance on the hotel property revaluation reserve attributable to that property is credited to the accumulated profits.

No depreciation is provided on hotel properties except where the unexpired term of the relevant lease is 20 years or less. It is the Group's practice to maintain the buildings in a continual state of sound repairs and to make improvements thereto from time to time and accordingly, the Directors consider that depreciation is not necessary due to their high residual value.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

(ii) *Other property, plant and equipment*

Other property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

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

Land and buildings in Hong Kong under medium-term leases	Over the lease term
Land and buildings outside Hong Kong under medium-term leases	2.5% to 4.5% or over the lease term, if shorter
Furniture, equipment and leasehold improvements	10% to 20%
Plant and machinery	10% to 30%
Motor vehicles	15% to 30%

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

(iii) Construction in progress is stated at cost. No depreciation or amortisation is provided for construction in progress until the construction is completed and the assets are ready for their intended use. Costs of completed construction works are transferred to the appropriate categories of other property, plant and equipment.

Properties held for development

Properties held for development are stated at cost less any identified impairment loss. Depreciation of these properties, on the same basis as other property, plant and equipment, commences when the assets are put into use.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has an expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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 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, 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 in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Turnover

Turnover represents the gross amounts received and receivable for revenue arising on hotel operations, goods sold by the Group to outside customers, less return and allowances and gross rental income during the year.

Revenue recognition

(i) *Hotel operations*

Revenue arising from hotel operations is recognised when the relevant services are provided.

(ii) *Sales of goods*

Sales of goods other than properties are recognised when goods are delivered and title has passed.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(iii) *Rental income*

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(iv) *Interest income*

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

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 an asset will crystallise in the foreseeable future.

Retirement benefits scheme

The pension costs charged to the income statement represent the amount of contributions payable in respect of the current year to the Group's defined contribution scheme.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions - hotel operations, trading, property investment and property development and trading. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Hotel operations	- hotel ownership and management
Trading	- trading of raw steel and material products
Property investment	- holding investment properties
Property development and trading	- holding properties held for development and properties held for sale

Segment information about these businesses is presented below.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

For the year ended 31st December, 2001:

	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Consolidated HK\$'000
REVENUE	<u>22,791</u>	<u>49,027</u>	<u>4,087</u>	<u>—</u>	<u>75,905</u>
RESULTS					
Segment results	4,616	(1,244)	(4,316)	7,557	6,613
Interest income					738
Net unrealised holding gains on other investments					46
Unallocated corporate expenses					<u>(9,795)</u>
Loss from operations					(2,398)
Finance costs					<u>(3,569)</u>
Loss for the year					<u>(5,967)</u>

At 31st December, 2001:

	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	171,446	28,354	84,811	184,875	469,486
Investments in securities					157
Club debenture					205
Unallocated corporate assets					<u>24,487</u>
Consolidated total assets					<u>494,335</u>
LIABILITIES					
Segment liabilities	5,383	15,445	40,157	100	61,085
Unallocated corporate liabilities					<u>5,179</u>
Consolidated total liabilities					<u>66,264</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

OTHER INFORMATION

	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Unallocated corporate assets HK\$'000	Consolidated HK\$'000
Capital additions	7,883	17	—	—	2,771	10,671
Depreciation	1,095	56	—	—	708	1,859
Revaluation deficit	—	—	7,000	—	—	7,000
Write back of impairment loss	—	—	—	7,940	—	7,940

For the year ended 31st December, 2000:

	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Consolidated HK\$'000
REVENUE	<u>21,466</u>	<u>10,095</u>	<u>4,048</u>	<u>—</u>	<u>35,609</u>
RESULTS					
Segment results	2,391	290	(4,428)	(618)	(2,365)
Interest income					1,357
Net unrealised holding losses on other investments					(56)
Unallocated corporate expenses					<u>(8,507)</u>
Loss from operations					(9,571)
Finance costs					<u>(4,557)</u>
Loss for the year					<u><u>(14,128)</u></u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

At 31st December, 2000:

	Hotel operations	Trading	Property investment	Property development and trading	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS					
Segment assets	169,281	15,104	91,880	176,935	453,200
Investments in securities					111
Club debenture					205
Unallocated corporate assets					14,887
					<u>468,403</u>
Consolidated total assets					<u>468,403</u>
LIABILITIES					
Segment liabilities	5,118	1,969	46,602	331	54,020
Unallocated corporate liabilities					5,335
					<u>59,355</u>
Consolidated total liabilities					<u>59,355</u>

OTHER INFORMATION

	Hotel operations	Trading	Property investment	Property development and trading	Unallocated corporate assets	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	682	2,598	—	—	—	3,280
Depreciation	1,475	28	—	—	729	2,232
Revaluation deficit	—	—	4,805	—	—	4,805



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

The Group's hotel operations are located in the People's Republic of China, other than Hong Kong (the "PRC"). Trading operations and property development and trading operations are located in Hong Kong. Property investment operations are located in both PRC and Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to profit (loss) for the year	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
The PRC	22,814	21,503	12,111	2,184
Hong Kong	53,091	14,106	(5,498)	(4,549)
	<u>75,905</u>	<u>35,609</u>	<u>6,613</u>	<u>(2,365)</u>
Interest income			738	1,357
Net unrealised holding gains (losses) on other investments			46	(56)
Unallocated corporate expenses			(9,795)	(8,507)
Loss from operations			(2,398)	(9,571)
Finance costs			(3,569)	(4,557)
Loss for the year			<u>(5,967)</u>	<u>(14,128)</u>

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
The PRC	357,221	347,116	7,883	682
Hong Kong	137,114	121,287	2,788	2,598
	<u>494,335</u>	<u>468,403</u>	<u>10,671</u>	<u>3,280</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

5. OTHER REVENUE

Other revenue included the following items:

	2001 HK\$'000	2000 HK\$'000
Interest income	738	1,357
Net unrealised holding gains (losses) on other investments	46	(56)
	<u>784</u>	<u>1,301</u>

6. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
Current year	600	800
Overprovision in prior year	(150)	—
Depreciation of property, plant and equipment	1,859	2,232
Staff costs (including directors' remuneration)	10,584	7,727
Gain on disposal of property, plant and equipment	(15)	(12)
Exchange gain	(9)	(21)
	<u> </u>	<u> </u>

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank borrowings wholly repayable within five years	535	50
Interest on bank borrowings not wholly repayable within five years	3,034	4,507
	<u>3,569</u>	<u>4,557</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

The aggregate emoluments of the Directors of the Company are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive Directors	—	—
Independent Non-Executive Directors	200	200
	<u>200</u>	<u>200</u>
Other emoluments (Executive Directors):		
Salaries and other benefits	2,561	2,653
Retirement benefits scheme contributions	77	87
	<u>2,638</u>	<u>2,740</u>
	<u><u>2,838</u></u>	<u><u>2,940</u></u>

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2001	2000
Nil - HK\$1,000,000	3	3
HK\$1,000,001 - HK\$1,500,000	2	2
	<u>2</u>	<u>2</u>

No Directors waived any emoluments for both the years.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

b. Employees' emoluments

During the year, the five highest paid individuals included two Directors (2000: three Directors), details of whose emoluments are set out above. The emoluments of the remaining three individuals (2000: two individuals) were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	1,316	1,059
Retirement benefits scheme contributions	60	48
	<u>1,376</u>	<u>1,107</u>

The aggregate emoluments of each of these three (2000: two) highest paid individuals is less than HK\$1,000,000.

9. STAFF RETIREMENT SCHEME

The Group contributes to a defined contribution retirement scheme which is available to Hong Kong permanent employees. This retirement scheme is administered by independent trustees with their assets held separately from those of the Group. Contributions under the staff retirement scheme for each year are based on a percentage of the eligible employees' salaries and are charged to the income statement as incurred. The total contribution to the scheme amounted to HK\$157,000 (2000: HK\$173,000) for the year and has been charged to the income statement. Forfeited employer contributions in respect of former employees who prematurely withdraw from the staff retirement scheme may be used by the Group to reduce its ongoing employer contributions. No forfeited contributions utilised for the year. The forfeited contributions utilised amounted to HK\$85,000 for the year ended 31st December, 2000. At the balance sheet date, there is no balance of forfeited contributions available to reduce the contribution payable in the future years.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

9. STAFF RETIREMENT SCHEME (continued)

Since the introduction of the Mandatory Provident Fund (“MPF”) Scheme in Hong Kong, the Group has also participated in an approved MPF Scheme with Bank of Consortium effective 1st December, 2000 to provide an MPF Scheme to all employees.

The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited at 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation. During the year under review, the total amount contributed by the Group to the MPF Scheme and charged to the income statement amounted to HK\$53,781 (2000: Nil).

10. TAXATION

No provision for Hong Kong Profits Tax or overseas taxation has been made in the financial statements as the Company and its subsidiaries have no assessable profits for both years.

At the balance sheet date, the major components of the unrecognised net deferred tax assets are as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Tax losses	11,708	13,379	4,334	4,334
Excess of tax allowances over accounting depreciation in respect of property, plant and equipment	(177)	(50)	—	—
	<u>11,531</u>	<u>13,329</u>	<u>4,334</u>	<u>4,334</u>

No deferred tax asset has been recognised in the financial statements as it is not certain that the tax benefit will be utilised in the foreseeable future.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

10. TAXATION (continued)

The amount of unprovided deferred tax charge for the year is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences because of:		
Tax losses utilised	1,671	231
Difference between tax allowances and accounting depreciation in respect of property, plant and equipment	127	22
	<u>1,798</u>	<u>253</u>

The revaluation deficit arising on the revaluation of properties in Hong Kong does not constitute a timing difference. Therefore, deferred tax has not been recognised in respect of the valuation deficit relating to properties in Hong Kong.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of HK\$5,967,000 (2000: HK\$14,128,000) and on the weighted average number of 611,900,338 ordinary shares (2000: 543,210,124 ordinary shares) in issue during the year.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

12. INVESTMENT PROPERTIES

	In the PRC held under medium-term leases HK\$'000	In Hong Kong held under medium-term leases HK\$'000	Total HK\$'000
THE GROUP			
Valuation			
As at 1st January, 2001	900	88,600	89,500
Deficit on revaluation	—	(7,000)	(7,000)
	<u>900</u>	<u>81,600</u>	<u>82,500</u>
As at 31st December, 2001	<u>900</u>	<u>81,600</u>	<u>82,500</u>

Investment properties were revalued at their open market value at 31st December, 2001 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers, on an open market value basis. This valuation gave rise to a revaluation decrease of HK\$7,000,000 (2000: HK\$4,805,000), which has been charged to the consolidation income statement.

All of the Group's investment properties are rented out under operating leases.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties in the PRC held under medium- term leases HK\$'000	Land and buildings HK\$'000	Furniture, equipment and leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st January, 2001	150,000	5,237	21,536	11,159	2,436	—	190,368
Additions	—	—	2,972	14	244	7,441	10,671
Transfer	7,441	—	—	—	—	(7,441)	—
Disposals and write off	—	—	(5,955)	(15)	—	—	(5,970)
Deficit on revaluation	(2,441)	—	—	—	—	—	(2,441)
	<u>155,000</u>	<u>5,237</u>	<u>18,553</u>	<u>11,158</u>	<u>2,680</u>	<u>—</u>	<u>192,628</u>
At 31st December, 2001							
Comprising:							
At cost	—	5,237	18,553	11,158	2,680	—	37,628
At valuation - 2001	155,000	—	—	—	—	—	155,000
	<u>155,000</u>	<u>5,237</u>	<u>18,553</u>	<u>11,158</u>	<u>2,680</u>	<u>—</u>	<u>192,628</u>
DEPRECIATION							
At 1st January, 2001	—	1,687	16,616	9,695	2,134	—	30,132
Provided for the year	—	174	1,196	402	87	—	1,859
Eliminated on disposals and write off	—	—	(5,857)	(8)	—	—	(5,865)
	<u>—</u>	<u>1,861</u>	<u>11,955</u>	<u>10,089</u>	<u>2,221</u>	<u>—</u>	<u>26,126</u>
At 31st December, 2001							
NET BOOK VALUES							
At 31st December, 2001	<u>155,000</u>	<u>3,376</u>	<u>6,598</u>	<u>1,069</u>	<u>459</u>	<u>—</u>	<u>166,502</u>
At 31st December, 2000	<u>150,000</u>	<u>3,550</u>	<u>4,920</u>	<u>1,464</u>	<u>302</u>	<u>—</u>	<u>160,236</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Hotel properties situated in the PRC were revalued on the basis of their open market value on 31st December, 2001 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers. The differences arising on revaluation have been reflected in the hotel property revaluation reserve.

The net book value of land and buildings shown above comprises:

	2001 HK\$'000	2000 HK\$'000
In Hong Kong held under medium-term leases	2,516	2,570
In the PRC held under medium-term leases	860	980
	<u>3,376</u>	<u>3,550</u>

14. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP In the PRC held under long leases 2001 & 2000 HK\$'000
Cost	199,267
Less: Impairment loss	<u>(119,267)</u>
	<u>80,000</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted investments, at cost	1,096,607	1,096,607
Less: Impairment loss	(1,073,000)	(1,090,000)
	<u>23,607</u>	<u>6,607</u>

Particulars of the Company's principal subsidiaries as at 31st December, 2001 are set out in note 30.

None of the subsidiaries had any debt security outstanding at the end of the year or at any time during the year.

16. INVESTMENTS IN SECURITIES

	Investment	Other		Total	
	securities	investments			
	2001 & 2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed shares in Hong Kong	—	156	110	156	110
Overseas debt securities	1	—	—	1	1
	<u>1</u>	<u>156</u>	<u>110</u>	<u>157</u>	<u>111</u>
Market value of listed shares	<u>—</u>	<u>156</u>	<u>110</u>	<u>156</u>	<u>110</u>
Carrying amount analysed for reporting purposes as:					
Current	—	156	110	156	110
Non-current	1	—	—	1	1
	<u>1</u>	<u>156</u>	<u>110</u>	<u>157</u>	<u>111</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

17. PROPERTIES HELD FOR SALE

Properties held for sale are stated at net realisable value.

18. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw steel and material products	10,663	—
Food, beverages and hotel supplies	1,504	1,468
	<u>12,167</u>	<u>1,468</u>

19. TRADE AND OTHER RECEIVABLES

THE GROUP

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	2001	2000
	HK\$'000	HK\$'000
0 - 60 days	3,198	2,666
61 - 90 days	811	343
91 - 120 days	269	735
>120 days	37	518
	<u>4,315</u>	<u>4,262</u>
Trade receivables	4,315	4,262
Other receivables	1,903	1,891
	<u>6,218</u>	<u>6,153</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

20. TRADE AND OTHER PAYABLES

THE GROUP

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	2001 HK\$'000	2000 HK\$'000
0 - 60 days	4,498	3,291
61 - 90 days	205	570
91 - 120 days	140	322
>120 days	—	380
	<hr/>	<hr/>
Trade payables	4,843	4,563
Other payables	11,634	8,050
	<hr/>	<hr/>
	16,477	12,613
	<hr/> <hr/>	<hr/> <hr/>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

21. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Secured bank loans	46,537	42,250	35,750	42,250
Secured bank overdraft	704	—	—	—
Unsecured bank overdraft	—	188	—	—
	<u>47,241</u>	<u>42,438</u>	<u>35,750</u>	<u>42,250</u>
The maturity of the bank borrowings is as follows:				
Within one year or on demand	17,991	6,688	6,500	6,500
More than one year but not exceeding two years	6,500	6,500	6,500	6,500
More than two years but not exceeding five years	19,500	19,500	19,500	19,500
More than five years	3,250	9,750	3,250	9,750
	<u>47,241</u>	<u>42,438</u>	<u>35,750</u>	<u>42,250</u>
Less: Amount due within one year shown under current liabilities	<u>(17,991)</u>	<u>(6,688)</u>	<u>(6,500)</u>	<u>(6,500)</u>
Amount due after one year	<u>29,250</u>	<u>35,750</u>	<u>29,250</u>	<u>35,750</u>

The secured bank loans bear interest at market rates. The secured bank loans amounting to HK\$29,250,000 are repayable in instalments over a period of 5.5 years and the remaining secured bank loans of HK\$17,287,000 are repayable within one year.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

22. SHARE CAPITAL

	Number of shares		Nominal value	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning of the year	1,000,000,000	600,000,000	100,000	60,000
Increase during the year	—	400,000,000	—	40,000
At end of the year	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:				
At beginning of the year	582,925,192	486,925,192	58,293	48,693
Issue of new shares	<u>83,275,027</u>	<u>96,000,000</u>	<u>8,327</u>	<u>9,600</u>
At end of the year	<u>666,200,219</u>	<u>582,925,192</u>	<u>66,620</u>	<u>58,293</u>

On 31st May, 2000, 96,000,000 ordinary shares of HK\$0.10 each were issued to an independent private investor, Ms. Lu Biru, at a price of HK\$0.25 per share. The gross proceeds of HK\$24,000,000 was used for the working capital of the Group. These new shares ranked pari passu with the then existing shares in all respects.

Pursuant to the special resolution passed on 28th June, 2000 in the special general meeting, the authorised share capital of the Company was increased from HK\$60,000,000 to HK\$100,000,000 by the creation of additional 400,000,000 new ordinary shares of HK\$0.10 each.

In order to strengthen the equity base of the Group and to secure additional cash resources for the business development of the Group, the Company carried out a rights issue ("Rights Issue") of 83,275,027 ordinary shares of HK\$0.10 each, for a consideration of HK\$0.35 per share. The Rights Issue was made on 27th August, 2001 to the existing shareholders, on the basis of one rights share for every seven shares then held. The rights shares ranked pari passu with the then existing shares in all respects. Details of the Rights Issue were set out in the prospectus of the Company dated 27th August, 2001.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

23. SHARE OPTION SCHEME

In accordance with the Company's share option scheme (the "Scheme"), which was adopted on 28th June, 1994 for a period of 10 years, the primary purpose of which is to provide incentives to directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Director(s) of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time.

The consideration payable on the grant of an option is HK\$1.00. Options may be exercised at any time for two years commencing on the expiry of one month after the date the options are granted and shall be expired on the last day of the two years period granted or on 27th June, 2004 whichever is earlier. The subscription price of the option shares shall be a price to be determined by the Directors of the Company, being not less than 80% of the average of the closing prices of the ordinary shares of the Company for the five trading days immediately preceding the date of the offer of the option and the nominal value of the ordinary shares of the Company.

There were no options outstanding at beginning or the end of the year. There were no options granted to or exercised by any Directors or employees of the Company and its subsidiaries during the year.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

24. RESERVES

	Share premium HK\$'000	Hotel property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
THE GROUP					
At 1st January, 2000	360,299	43,695	(56,848)	5,427	352,573
Exchange adjustments	—	—	(90)	—	(90)
Share premium arising from issue of shares	14,400	—	—	—	14,400
Deficit on revaluation of hotel properties	—	(2,000)	—	—	(2,000)
Loss for the year	—	—	—	(14,128)	(14,128)
At 31st December, 2000	374,699	41,695	(56,938)	(8,701)	350,755
Exchange adjustments	—	—	(5)	—	(5)
Share premium arising from issue of shares, net of expenses	19,109	—	—	—	19,109
Deficit on revaluation of hotel properties	—	(2,441)	—	—	(2,441)
Loss for the year	—	—	—	(5,967)	(5,967)
At 31st December, 2001	<u>393,808</u>	<u>39,254</u>	<u>(56,943)</u>	<u>(14,668)</u>	<u>361,451</u>
THE COMPANY					
At 1st January, 2000	360,299	—	—	(59,932)	300,367
Share premium arising from issue of shares	14,400	—	—	—	14,400
Loss for the year	—	—	—	(344,248)	(344,248)
At 31st December, 2000	374,699	—	—	(404,180)	(29,481)
Share premium arising from issue of shares, net of expenses	19,109	—	—	—	19,109
Profit for the year	—	—	—	12,441	12,441
At 31st December, 2001	<u>393,808</u>	<u>—</u>	<u>—</u>	<u>(391,739)</u>	<u>2,069</u>

The Company had no reserve available for distribution to the shareholders as at 31st December, 2000 and 2001.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

25. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2001 HK\$'000	2000 HK\$'000
Minimum lease payments in respect of rented premises under operating leases recognised in income for the year	<u>1,954</u>	<u>1,915</u>

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	2001 HK\$'000	2000 HK\$'000
Within one year	1,106	1,161
In the second to fifth year inclusive	<u>1,843</u>	<u>—</u>
	<u>2,949</u>	<u>1,161</u>

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of 3 years.

The Company has no operating lease commitments outstanding as at 31st December, 2001 and 2000.

The Group as lessor

The Group's property rental income earned during the year was approximately HK\$4,007,000 (2000: HK\$4,048,000). All of the properties held have committed tenants for the next 3 years.

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

	2001 HK\$'000	2000 HK\$'000
Within one year	3,294	2,979
In the second to fifth year inclusive	<u>1,769</u>	<u>1,610</u>
	<u>5,063</u>	<u>4,859</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

26. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	309	—
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	—	4,042
	<u> </u>	<u> </u>

The Company had no capital commitments outstanding as at 31st December, 2001 and 2000.

27. PLEDGE OF ASSETS

At 31st December, 2001, the Group's investment properties and bank deposits and all accrued interest thereon amounting to approximately HK\$81,600,000 (2000: HK\$88,600,000) and HK\$10,737,000 (2000: HK\$10,000,000), respectively, were pledged to secure general banking facilities.

28. RELATED PARTY TRANSACTIONS

During the year, the Group paid rental expenses amounting to approximately HK\$369,000 (2000: Nil) to World Shine Enterprises Limited, in which a substantial shareholder of the Company, Ms. Lu Biru has a beneficial interest.

The rental expenses were charged based on the terms of the tenancy agreement agreed between the Group and World Shine Enterprises Limited.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

29. POST BALANCE SHEET EVENTS

- (a) On 19th February, 2002, the Company announced a sale and purchase agreement entered into with an independent third party (“Vendor”), pursuant to which the Vendor agreed to sell and the Company agreed to purchase, the entire issued share capital of Can Manage Trading Limited (“Can Manage”) and a shareholder’s loan outstanding and owing by Can Manage to the Vendor, for a consideration of approximately HK\$270 million. The consideration will be settled partly in cash and partly by the issue of convertible note of the Company. Details of these were set out in the prospectus of the Company dated 20th March, 2002. These transactions were subsequently approved by the shareholders on 8th April, 2002.
- (b) The Company increased the authorised share capital from the existing HK\$100,000,000 to HK\$300,000,000 by the creation of additional 2,000,000,000 new shares of HK\$0.10 each on 8th April, 2002.
- (c) The Company entered into a placing and underwriting agreement on 19th February, 2002 to issue convertible notes in units of HK\$1,000,000 each in an aggregate principal amount of HK\$230 million (the “Convertible Notes”). The Convertible Notes will bear interest at the rate of 1.0 per cent. per annum and would carry rights for the holder of the Convertible Notes to convert the Convertible Notes into shares of HK\$0.10 each (“Shares”) in the share capital of the Company at the initial conversion price of HK\$0.27 per conversion share, subject to adjustment in accordance with the terms of the Convertible Notes.
- (d) The Company carried out a rights issue exercise by issuing 133,240,043 ordinary shares of HK\$0.10 each, for a consideration of HK\$0.21 per share, on the basis of one rights share for every five shares to the existing shareholders. Details of the rights issue were set out in the prospectus of the Company date 19th March, 2002.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

30. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2001 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held	Principal activity
<i>Direct subsidiary</i>				
China Investments Limited	Hong Kong	HK\$1,000	100	Investment holding
<i>Indirect subsidiaries</i>				
Airlane Development Limited	Hong Kong	HK\$2	100	Property trading
Barmax Development Limited	Hong Kong	HK\$2	100	Property trading
Botex Development Limited	Hong Kong	HK\$2	100	Property trading
Centon Development Limited	Hong Kong	HK\$2	100	Property trading
Charland Investment Limited	Hong Kong	HK\$2	100	Property trading
China Alliance Industries Limited	Hong Kong	HK\$2	100	Property trading
Cyro Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Expert Target Development Limited	Hong Kong	HK\$2	100	Property trading
Fairwind International Limited	Hong Kong	HK\$2	100	Property development



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

30. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held	Principal activity
<i>Indirect subsidiaries - continued</i>				
Greenswood Property Limited	Hong Kong	HK\$2	100	Property investment
Guilin Li-Feng Real Estate Company Ltd.	PRC	RMB8,459,827	100	Property development
Guilin Sight-Seeing Hotel Company Limited	PRC	RMB14,500,000	100	Hotel operations
Jofra Company Limited	Hong Kong	HK\$1,000	100	Investment holding
Kawan (HK) Trading Company Limited	Hong Kong	HK\$4,000,000	100	[Trading of steels and other materials]
Langmax Investment Limited	Hong Kong	HK\$2	100	Property trading
Lina Development Limited	Hong Kong	HK\$2	100	Property trading
Metropolitan Development Limited	Hong Kong	HK\$2	100	Property trading
Rich Asset Development Limited	Hong Kong	HK\$2	100	Property trading
Rich Horn Development Limited	Hong Kong	HK\$2	100	Property trading



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2001

30. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued and fully paid ordinary share capital/registered capital	Percentage held	Principal activity
<i>Indirect subsidiaries - continued</i>				
Senicon Investment Limited	Hong Kong	HK\$2	100	Property trading
Sino Sense Development Limited	Hong Kong	HK\$2	100	Property trading
Skyway Limited	Hong Kong	HK\$2	100	Property development
Tremendous World Property Limited	Hong Kong	HK\$2	100	Property trading
Trener Investment Limited	Hong Kong	HK\$2	100	Property trading
Universal Talent Development Limited	Hong Kong	HK\$2	100	Property trading
Wen Ying Investments Limited	Hong Kong	HK\$100	100	Property development
Wise Lite Limited	Hong Kong	HK\$2	100	Property development

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.