

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”).

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in property and other investments. Details of the principal activities of the Company’s subsidiaries and Group’s associates are set out in note 55 to the financial statements.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosures 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 and disclosures reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) “Events after the balance sheet date”, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior year adjustment. The proposed final dividend of HK\$12,847,000 for 2000 has been reversed and recognised in the year ended 31st December, 2001. The effect of this change was to increase the Group’s and the Company’s accumulated profits as at 1st January, 2001 of approximately HK\$12,847,000.

As a result of the adoption of SSAP 9 (Revised), SSAP 18 “Revenue” has also been revised. Accordingly, the dividend proposed or declared after the balance sheet date by subsidiaries are not recognised by the Company at the balance sheet date. This change in accounting policy has also been applied retrospectively, resulting in a prior year adjustment which has decreased the Company’s accumulated profits at 1st January, 2000 and 1st January, 2001 by HK\$440,000,000 and HK\$26,470,000 respectively.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE — *continued*

Segment reporting

In the current year, the Group has followed 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.

Goodwill

In the current year, the Group has adopted SSAP 30 “Business combinations” and has elected not to restate the goodwill and negative goodwill previously eliminated against and credited to reserves respectively.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserve and will be charged to expense at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Goodwill arising on acquisition after 1st January, 2001 is presented as an asset and will be amortised on a straight line basis over its estimated useful economic life of not more than 20 years.

Negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserve and will be credited to income at the time of disposal of the relevant subsidiary or associate. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the valuation of properties and investments in securities.

The financial statements have been prepared 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 and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal respectively, as appropriate.

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

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group’s interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

3. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserve and will be charged to income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Goodwill arising on acquisition after 1st January, 2001 is recognised as an asset and amortised on a straight line basis over its useful economic life of not more than 20 years.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserve and will be credited to income at the time of disposal of the relevant subsidiary or associate. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

3. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investments in subsidiaries

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

Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

Associates

The results and net assets of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline in the value of the associate that is other than temporary.

Investment properties

Investment properties are 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 surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment properties revaluation reserve is charged to the income statement.

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

No depreciation is provided in respect of investment properties which are held under leases with unexpired terms of more than twenty years.

3. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and accumulated impairment loss.

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 amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the asset 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 asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the depreciable amount of the assets, using the straight line method, over their estimated useful lives as follows:

Leasehold land	50 years or over the term of the relevant lease, whichever is shorter
Leasehold buildings	25 years or over the term of the relevant lease, whichever is shorter
Leasehold improvements	3 years
Furniture and fixtures	10 years
Office equipment	5 years
Motor vehicles	6 - 10 years
Machinery	5 years

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.

Investments in securities

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

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 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 the income statement for the year.

3. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Convertible bonds

Convertible bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost, including the premium payable upon the final redemption of the convertible bonds, is recognised in the income statement so as to produce a constant periodic rate of charge on the remaining balances of the convertible bonds for each accounting period.

The cost incurred in connection with the issue of convertible bonds are deferred and amortised on a straight line basis over the lives of the convertible bonds from the date of issue of the bonds to their final redemption date. If any of the bonds are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchased and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method.

Revenue recognition

Rental income under operating leases is recognised on a straight line basis over the term of the leases.

Rental income under guaranteed return is recognised when the Group's right to receive the guaranteed rental has been established according to the terms of the relevant agreement.

Management fee income from property management is recognised when management service is rendered.

Dividends from investments are recognised when the Group's right to receive the dividend payment has been established.

Income from the trading of securities is recognised upon the exercise of a legally binding and irrevocable contract of sale.

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

3. 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 loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

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

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes 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 under 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.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the leases.

Foreign currencies

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

On consolidation, the financial statements of overseas operations maintained in foreign currencies are translated at rates ruling on the balance sheet date. Exchange differences arising on consolidation are dealt with in the exchange reserve.

Notes to the Financial Statements

For the year ended 31st December, 2001

4. TURNOVER

	2001	2000
	HK\$'000	HK\$'000
Turnover is analysed as follows:		
Rental income	67,524	72,600
Management fee income	46,935	—
Proceeds from trading of securities	20,118	2,522
Dividend income from listed securities	864	4,785
	<u>135,441</u>	<u>79,907</u>

5. OTHER REVENUE

	2001	2000
	HK\$'000	HK\$'000
Other revenue includes the following income:		
Interest income	33,864	15,338
Realised gain on other investments	20,410	8,533
Gain on disposal of an investment property	4,103	—
Release of negative goodwill	5,936	—
Commission income	2,186	—
Reversal of deficit on revaluation of leasehold land and buildings	187	1,117
Unrealised holding gain on other investments	—	758
Others	1,586	1,321
	<u>68,272</u>	<u>27,067</u>

6. OTHER OPERATING EXPENSES

	2001	2000
	HK\$'000	HK\$'000
Other operating expenses comprise:		
Deficit on revaluation of investment properties	2,635	—
Deficit on revaluation of leasehold land and buildings	2,178	780
Realised loss on disposal of investment securities	1,930	—
Unrealised holding loss on other investments	1,993	—
Amortisation of goodwill	5,588	—
Write off of interest and other receivables	17,031	—
Allowance for deposits on acquisition of leasehold properties in the People's Republic of China ("PRC")	26,555	—
Allowance for bad and doubtful receivables	—	6,102
	<u>57,910</u>	<u>6,882</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

7. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	622	514
Depreciation	5,375	2,833
Realised loss on trading of securities	2,241	—
Repair and maintenance fund relating to the Group's investment properties in the PRC expensed	1,371	1,371
Operating lease rentals in respect of land and buildings	456	266
Staff cost including directors' remuneration set out in note 12 and the mandatory provident fund contributions of HK\$175,000 (2000: nil)	25,728	9,576
and after crediting:		
Realised gain on trading of securities	—	690
Rental income under operating leases, less outgoings of HK\$2,809,000 (2000: HK\$22,212,000)	64,715	6,978
Rental income under guaranteed return	—	43,410
	<u> </u>	<u> </u>

8. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans and overdrafts	39,319	9,262
Interest on convertible bonds	31,008	43,171
Interest on provision in respect of borrowings of associate	3,920	—
Interest on other loans wholly repayable within five years	3,871	—
Interest on advance from an associate	1,090	3,200
Amortisation of direct issuance costs of convertible bonds	1,804	2,752
	<u> </u>	<u> </u>
Total borrowing costs	<u>81,012</u>	<u>58,385</u>

No interest was capitalised during the year.

Notes to the Financial Statements

For the year ended 31st December, 2001

9. OTHER INCOME/EXPENSES

	2001	2000
	HK\$'000	HK\$'000
Other income/expenses comprise:		
Recovery of loan and accrued interest in respect of an amount due from a former shareholder of an associate previously written off (see note 23)	93,737	—
(Loss) profit on repurchase of convertible bonds	(1,127)	11,683
	<u>92,610</u>	<u>11,683</u>

10. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

The amount in 2000 represented profit on deemed disposal of interest in SilverNet Group Limited (“SilverNet”), one of the Group’s associates, as a result of the issuance of new shares by SilverNet to other investors.

11. SHARE OF RESULTS OF ASSOCIATES

The amount of share of results of associates for the year ended 31st December, 2001 includes an amount of HK\$8,500,000, which represents the Group’s share of profit on deemed disposal of interest in Jiangxi Copper Company Limited (“JCC”) as a result of the issuance of A shares by JCC in the PRC on 28th December, 2001. JCC is an associate of one of the Group’s associates.

12. DIRECTORS’ REMUNERATION

	2001	2000
	HK\$'000	HK\$'000
Directors’ fees:		
Executive	1,400	1,100
Independent non-executive	200	200
	<u>1,600</u>	<u>1,300</u>
Other emoluments (executive directors):		
Salaries and other benefits	2,370	1,749
Performance related incentive payments	200	150
Mandatory provident fund contribution	24	—
	<u>2,594</u>	<u>1,899</u>
	<u>4,194</u>	<u>3,199</u>

The directors’ remuneration shown above includes the estimated monetary value of quarters provided rent free during the year to one of the executive directors. The estimated rental value of such accommodation was HK\$511,000 (2000: HK\$514,000).

Notes to the Financial Statements

For the year ended 31st December, 2001

12. DIRECTORS' REMUNERATION — *continued*

Remuneration of the directors were within the following bands:

	No. of directors	
	2001	2000
Nil to HK\$1,000,000	12	13
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,000,001 to HK\$2,500,000	1	—
	<u>14</u>	<u>14</u>

13. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included 2 (2000: 1) directors, details of whose emoluments are set out in note 12 above. The emoluments of the remaining 3 (2000: 4) individuals are as follows:

	2001	2000
	HK\$'000	HK\$'000
Salaries and other benefits	1,846	2,239
Performance related incentive payments	300	380
Mandatory provident fund contribution	36	—
	<u>2,182</u>	<u>2,619</u>

Their emoluments are within the following bands:

	No. of employees	
	2001	2000
Nil to HK\$1,000,000	<u>3</u>	<u>4</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

14. TAXATION

	2001 HK\$'000	2000 HK\$'000
The (charge) credit comprises:		
Income tax in the PRC, excluding Hong Kong	<u>(2,214)</u>	<u>—</u>
Share of taxation of associates		
- Hong Kong Profits Tax	68	(226)
- Income tax in the PRC, excluding Hong Kong	<u>(4,107)</u>	<u>(2,066)</u>
	<u>(4,039)</u>	<u>(2,292)</u>
	<u>(6,253)</u>	<u>(2,292)</u>

Provision for Hong Kong Profits Tax has not been made as the Group has no assessable profit for the year.

The taxation charge for the year in respect of income tax of the Group and the associates in the PRC, other than those in Hong Kong, are calculated at rates prevailing in the respective jurisdictions.

The taxation credit attributable to share of taxation of associates for the year represents overprovision of Hong Kong Profits Tax made in previous years.

The taxation charge of associates for the prior year comprised Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for that year and income tax in the PRC, other than those in Hong Kong, calculated at rates prevailing in the respective jurisdictions.

Details of provided and unprovided deferred taxation are set out in note 41.

15. DIVIDEND

	2001 HK\$'000	2000 HK\$'000
Final dividend of 2 cents (2000: 1 cent) per share, proposed	<u>26,244</u>	<u>12,847</u>

The previously recorded 2000 final dividend proposed and declared after the balance sheet date but accrued in the financial statements for the year ended 31st December, 2000 was approximately HK\$12,847,000. Under the Company's revised accounting policy as stated in note 2, this is now charged in the period in which it was approved.

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2001 HK\$'000	2000 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>62,446</u>	<u>32,702</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

16. EARNINGS PER SHARE — *continued*

	Number of shares (in thousand)	
	2001	2000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,296,908	1,236,859
Effect of dilutive potential ordinary shares from warrants	1,794	1,707
Effect of dilutive potential ordinary shares from share options	1,031	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,299,733	1,238,566

The convertible bonds have no dilutive effect on the earnings per share for either year.

17. INVESTMENT PROPERTIES

	THE GROUP HK\$'000	THE COMPANY HK\$'000
AT VALUATION		
At 1st January, 2001	613,681	141,181
Acquisition of a subsidiary	1,118,951	—
Additions	60,746	—
Disposals	(28,290)	(28,290)
Deficit on revaluation	(103,674)	(11,152)
At 31st December, 2001	1,661,414	101,739

The carrying value of the investment properties comprises:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Held under long term leases:				
- situated in Hong Kong	85,900	108,200	82,300	103,700
- situated in the PRC, other than in Hong Kong	966,168	505,481	19,439	37,481
	1,052,068	613,681	101,739	141,181
Held under medium term leases:				
- situated in the PRC, other than in Hong Kong	609,346	—	—	—
	1,661,414	613,681	101,739	141,181

Notes to the Financial Statements

For the year ended 31st December, 2001

17. INVESTMENT PROPERTIES — *continued*

All the investment properties are held for rental income under operating leases.

The professional valuations of the investment properties of the Group and the Company at 31st December, 2001 were carried out by Vigers Hong Kong Limited and A-Plus Surveyors Ltd., firms of independent professional valuers, on an open market value basis.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Machinery HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st January, 2001	93,041	2,236	2,121	1,342	3,642	—	102,382
Acquisition of subsidiaries	—	—	549	3,546	7,030	329	11,454
Additions	—	—	1,143	1,263	1,779	22	4,207
Disposals	—	—	—	(787)	—	—	(787)
Deficit on revaluation	(5,000)	—	—	—	—	—	(5,000)
	<u>88,041</u>	<u>2,236</u>	<u>3,813</u>	<u>5,364</u>	<u>12,451</u>	<u>351</u>	<u>112,256</u>
At 31st December, 2001	88,041	2,236	3,813	5,364	12,451	351	112,256
Comprising:							
At cost	—	2,236	3,813	5,364	12,451	351	24,215
At professional valuation - 2001	88,041	—	—	—	—	—	88,041
	<u>88,041</u>	<u>2,236</u>	<u>3,813</u>	<u>5,364</u>	<u>12,451</u>	<u>351</u>	<u>112,256</u>
DEPRECIATION							
At 1st January, 2001	—	2,010	1,268	1,144	2,077	—	6,499
Acquisition of subsidiaries	—	—	250	2,311	5,583	134	8,278
Provided for the year	3,201	226	433	600	846	69	5,375
Eliminated on disposals	—	—	—	(752)	—	—	(752)
Eliminated on revaluation	(3,201)	—	—	—	—	—	(3,201)
	<u>—</u>	<u>2,236</u>	<u>1,951</u>	<u>3,303</u>	<u>8,506</u>	<u>203</u>	<u>16,199</u>
At 31st December, 2001	—	2,236	1,951	3,303	8,506	203	16,199
NET BOOK VALUES							
At 31st December, 2001	<u>88,041</u>	<u>—</u>	<u>1,862</u>	<u>2,061</u>	<u>3,945</u>	<u>148</u>	<u>96,057</u>
At 31st December, 2000	<u>93,041</u>	<u>226</u>	<u>853</u>	<u>198</u>	<u>1,565</u>	<u>—</u>	<u>95,883</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

18. PROPERTY, PLANT AND EQUIPMENT — *continued*

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Machinery HK\$'000	Total HK\$'000
THE COMPANY							
COST OR VALUATION							
At 1st January, 2001	50,971	1,717	2,121	1,229	3,642	—	59,680
Additions	—	—	—	30	—	—	30
Disposals	—	—	—	(749)	—	—	(749)
Deficit on revaluation	(1,700)	—	—	—	—	—	(1,700)
	<u>49,271</u>	<u>1,717</u>	<u>2,121</u>	<u>510</u>	<u>3,642</u>	<u>—</u>	<u>57,261</u>
At 31st December, 2001							
Comprising:							
At cost	—	1,717	2,121	510	3,642	—	7,990
At professional valuation - 2001	49,271	—	—	—	—	—	49,271
	<u>49,271</u>	<u>1,717</u>	<u>2,121</u>	<u>510</u>	<u>3,642</u>	<u>—</u>	<u>57,261</u>
DEPRECIATION							
At 1st January, 2001	—	1,664	1,268	1,035	2,077	—	6,044
Provided for the year	1,892	53	213	101	364	—	2,623
Eliminated on disposals	—	—	—	(734)	—	—	(734)
Eliminated on revaluation	(1,892)	—	—	—	—	—	(1,892)
	<u>—</u>	<u>1,717</u>	<u>1,481</u>	<u>402</u>	<u>2,441</u>	<u>—</u>	<u>6,041</u>
At 31st December, 2001							
NET BOOK VALUES							
At 31st December, 2001	<u>49,271</u>	<u>—</u>	<u>640</u>	<u>108</u>	<u>1,201</u>	<u>—</u>	<u>51,220</u>
At 31st December, 2000	<u>50,971</u>	<u>53</u>	<u>853</u>	<u>194</u>	<u>1,565</u>	<u>—</u>	<u>53,636</u>

The net book value of the leasehold land and buildings comprises:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Long term leasehold properties				
in Hong Kong	47,100	52,100	13,000	14,700
Medium term leasehold properties				
in the PRC, other than in Hong Kong	40,941	40,941	36,271	36,271
	<u>88,041</u>	<u>93,041</u>	<u>49,271</u>	<u>50,971</u>

The professional valuations of the leasehold properties of the Group and the Company at 31st December, 2001 were carried out by Vigers Hong Kong Limited and A-Plus Surveyors Ltd., firms of independent professional valuers, on an open market value basis.

Notes to the Financial Statements

For the year ended 31st December, 2001

18. PROPERTY, PLANT AND EQUIPMENT — *continued*

If leasehold land and buildings had not been revalued, they would have been included on a historical cost basis at the following amounts:

	THE GROUP	THE COMPANY
	HK\$'000	HK\$'000
Cost	115,545	51,271
Accumulated depreciation	(15,665)	(3,788)
Net book value at 31st December, 2001	<u>99,880</u>	<u>47,483</u>
Net book value at 31st December, 2000	<u>103,791</u>	<u>49,021</u>

19. GOODWILL

	THE GROUP
	HK\$'000
COST	
Arising on acquisition of subsidiaries and balance at 31st December, 2001	55,874
AMORTISATION	
Charge for the year and balance at 31st December, 2001	<u>5,588</u>
NET BOOK VALUE	
At 31st December, 2001	<u>50,286</u>

Goodwill is amortised over its estimated useful economic life of 10 years.

20. NEGATIVE GOODWILL

	THE GROUP
	HK\$'000
GROSS AMOUNT	
Arising on acquisition of a subsidiary	(73,651)
Arising on acquisitions of additional interest in a subsidiary	<u>(45,053)</u>
At 31st December, 2001	(118,704)
RELEASED TO INCOME	
Released for the year and balance at 31st December, 2001	<u>5,936</u>
NET BOOK VALUE	
At 31st December, 2001	<u>(112,768)</u>

The negative goodwill is released to income on a straight-line basis over a period of 20 years, the remaining operating period of the major assets of the subsidiary acquired.

Notes to the Financial Statements

For the year ended 31st December, 2001

21. DEPOSITS ON ACQUISITIONS

	THE GROUP AND THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Deposit for the acquisition of leasehold properties in the PRC	—	26,555
Deposit for the acquisition of a subsidiary	—	56,000
	<u>—</u>	<u>82,555</u>
	<u><u>—</u></u>	<u><u>82,555</u></u>

22. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	56,001	1
Amounts due from subsidiaries	1,566,646	1,447,837
	<u>1,622,647</u>	<u>1,447,838</u>
	<u><u>1,622,647</u></u>	<u><u>1,447,838</u></u>

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, no part of the amounts will be repayable in the next twelve months, and accordingly, the amounts are shown as non-current assets.

Particulars of the Company's subsidiaries as at 31st December, 2001 are set out in note 55.

Notes to the Financial Statements

For the year ended 31st December, 2001

23. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	—	—	334,143	44,643
Less: Impairment loss recognised	—	—	(7,600)	—
	—	—	326,543	44,643
Share of net assets (note)	1,350,868	648,665	—	—
Amounts due from associates	20,200	777,204	49,900	144,601
	1,371,068	1,425,869	376,443	189,244
Market value of shares in an associate listed on the Hong Kong Stock Exchange	139,700	267,300	—	—

Note: The amount includes the Group's share of unamortised goodwill and premium on acquisition of associates of HK\$10,237,000 (2000: HK\$19,401,000).

The amounts due from associates are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the amounts will be repayable in the next twelve months, and accordingly, the amounts are shown as non-current. In 2000, an amount of HK\$63,442,000 due from an associate was interest bearing at Hong Kong prime interest rate. Other amounts were non-interest bearing.

Particulars of the associates of the Group and the Company as at 31st December, 2001 are set out in note 55.

Notes to the Financial Statements

For the year ended 31st December, 2001

23. INTERESTS IN ASSOCIATES — continued

The following information relates to the Group's significant associates, namely CII Limited ("CII"), SilverNet, Nonferrous Metal International (BVI) Limited ("NMIL (BVI)"), International Copper Industry (China) Investment Limited ("ICC"), Beijing Wangfujing Retail Management Co. Ltd. ("WFJ"), and Crabec Holdings (BVI) Limited ("Crabec") for the year ended 31st December, 2001 and 31st December, 2000.

	CII		SilverNet		NMIL (BVI)		ICC		WFJ		Crabec	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(note a)		(note a)		(note b)		(note c)	
Operating result												
Turnover/Income	<u>215,076</u>	<u>158,280</u>	<u>670</u>	<u>107,385</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>203,723</u>	<u>196,156</u>	<u>—</u>	<u>392,408</u>
Profit (loss) for the year	<u>131,640</u>	<u>54,986</u>	<u>(141,890)</u>	<u>(98,188)</u>	<u>38,652</u>	<u>—</u>	<u>—</u>	<u>(15,259)</u>	<u>(28,026)</u>	<u>(23,256)</u>	<u>—</u>	<u>(166,314)</u>
Profit (loss) for the year attributable to the Group	<u>65,820</u>	<u>27,493</u>	<u>(42,970)</u>	<u>(22,930)</u>	<u>19,326</u>	<u>—</u>	<u>—</u>	<u>(7,630)</u>	<u>(14,013)</u>	<u>(11,628)</u>	<u>—</u>	<u>(49,894)</u>
Financial position												
Fixed assets	<u>260</u>	<u>382</u>	<u>29,027</u>	<u>81,301</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>312,898</u>	<u>331,251</u>	<u>—</u>	<u>66,515</u>
Investments	<u>1,986,787</u>	<u>2,010,611</u>	<u>189,478</u>	<u>330,327</u>	<u>825,276</u>	<u>—</u>	<u>—</u>	<u>753,016</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>101,174</u>
Other assets	<u>102,000</u>	<u>102,000</u>	<u>—</u>	<u>15,600</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,852</u>	<u>—</u>	<u>11,650</u>
Current assets	<u>216,611</u>	<u>352,583</u>	<u>183,054</u>	<u>133,158</u>	<u>72</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>246,127</u>	<u>—</u>	<u>297,165</u>
Current liabilities	<u>(349,466)</u>	<u>(511,706)</u>	<u>(19,167)</u>	<u>(10,725)</u>	<u>(958)</u>	<u>—</u>	<u>—</u>	<u>(367,018)</u>	<u>—</u>	<u>(241,462)</u>	<u>—</u>	<u>(158,992)</u>
Non-current liabilities	<u>(687,334)</u>	<u>(1,773,785)</u>	<u>(16,614)</u>	<u>(50,509)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(238,339)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(172,097)</u>
Net assets	<u>1,268,858</u>	<u>180,085</u>	<u>365,778</u>	<u>499,152</u>	<u>824,390</u>	<u>—</u>	<u>—</u>	<u>147,661</u>	<u>312,898</u>	<u>337,768</u>	<u>—</u>	<u>145,415</u>
Net assets attributable to the Group	<u>634,429</u>	<u>90,043</u>	<u>110,778</u>	<u>151,079</u>	<u>412,195</u>	<u>—</u>	<u>—</u>	<u>73,831</u>	<u>156,449</u>	<u>168,884</u>	<u>—</u>	<u>43,625</u>

23. INTERESTS IN ASSOCIATES — *continued*

Notes:

- (a) As at 31st December, 2000, the Group held 50% interest in ICC which in turn held 500,000,000 H shares of JCC.

In the previous years, the Company had advanced a loan to China Nonferrous Metals Holdings (Hong Kong) Limited (“CNM Holdings”), the other shareholder of ICC which had a 50% interest in ICC, and the loan had been provided for by the Company in the previous years. The Company had also executed a joint and several guarantee, together with CNM Holdings, in respect of a bank loan granted to ICC of HK\$330 million.

During the year, the Company has entered into agreements with CNM Holdings and with China Minmetals H.K. (Holdings) Limited (“China Minmetals”) to restructure the shareholding of ICC. Pursuant to the agreements, the Group acquired the 50% interest in ICC held by CNM Holdings for HK\$93,737,316, which was settled by the amount of loan and accrued interest due to the Company by CNM Holdings. ICC was then injected into NMIL (BVI) to become a wholly owned subsidiary of NMIL (BVI). On the same date, China Minmetal acquired 50% interest in NMIL (BVI) for HK\$325 million, and such amount is payable in cash by instalments. The Company has also agreed with China Minmetal that the Company shall be wholly responsible to repay the bank loan of HK\$297 million granted by a bank to Nonferrous Metals International Limited (“NMIL”), a wholly owned subsidiary of NMIL (BVI), and the related interest thereon (see also note 33). Such restructuring of the shareholding of ICC gave rise to a gain of HK\$5.8 million which was recorded in the income statement for the year. The provision for the loan to CNM Holdings and the accrued interest thereon has also been reversed in the income statement for the year.

- (b) WFJ is under shareholders’ voluntary liquidation as at 31st December, 2001.

- (c) Crabec was disposed of during the year.

Capital commitments contracted but not provided for in the financial statements of CII as at 31st December, 2001 in respect of capital contribution and investments in its investee companies amounted to approximately HK\$110 million (2000: HK\$183 million).

A joint venture of CII is granted with a construction loan of RMB450 million (2000: RMB450 million) from a bank. The ultimate holding company of a shareholder of CII (the “Guarantor”) has provided a guarantee to the bank. CII has signed an agreement with the Guarantor that CII provides counter-indemnity to the Guarantor in relation to the above loan facility. The amount of the loan utilised by the joint venture as at 31st December, 2001 is approximately HK\$266,558,000 (2000: HK\$320,561,000).

Notes to the Financial Statements

For the year ended 31st December, 2001

24. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment securities, carried at cost:				
Unlisted shares	2,070	2,070	2,070	2,070
Club debentures	450	450	450	450
Other debentures	220	280	220	280
	<u>2,740</u>	<u>2,800</u>	<u>2,740</u>	<u>2,800</u>
Other investments, carried at market value:				
Shares listed in Hong Kong	26,166	32,797	818	5
Convertible bonds listed overseas	1,170	994	—	—
	<u>27,336</u>	<u>33,791</u>	<u>818</u>	<u>5</u>
	<u>30,076</u>	<u>36,591</u>	<u>3,558</u>	<u>2,805</u>
Carrying amount analysed for reporting purposes as:				
Current	26,160	2,902	812	—
Non-current	3,916	33,689	2,746	2,805
	<u>30,076</u>	<u>36,591</u>	<u>3,558</u>	<u>2,805</u>

25. OTHER ASSETS

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepaid expenditure	9,598	10,969	—	—
Loan to a potential investee company	—	3,193	—	3,193
	<u>9,598</u>	<u>14,162</u>	<u>—</u>	<u>3,193</u>

The prepaid expenditure is a lump sum payment for repair and maintenance fund made for the future repair and maintenance of the general areas of one of the Group's investment properties in the PRC. The amount was amortised over its estimated useful life of 10 years.

Notes to the Financial Statements

For the year ended 31st December, 2001

26. AMOUNT DUE FROM A SHAREHOLDER OF AN ASSOCIATE

	THE GROUP AND THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	81,250	—
Over 1 year	162,500	—
	<u>243,750</u>	<u>—</u>
Less: Amount receivable within one year included in current assets	<u>(81,250)</u>	<u>—</u>
Amount receivable after one year	<u>162,500</u>	<u>—</u>

The amount represents the consideration receivable from China Minmetal as at 31st December, 2001 in relation to China Minmetal's acquisition of 50% interest in NMIL (BVI) pursuant to the restructure of the shareholding of ICC as explained in note 23. The amount is unsecured and bears interest at Hong Kong prime interest rate.

27. LOANS RECEIVABLE

THE GROUP AND THE COMPANY

The amount in 2000 comprised a loan of HK\$135,000,000 which was guaranteed by two directors of the Company and bore interest at 1% above Hong Kong prime interest rates. The other loan of HK\$23,364,000 was unsecured and non-interest bearing. Both amounts were fully repaid during the year.

28. TRADE RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers.

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

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 to 30 days	1,630	—
31 to 90 days	275	—
Over 90 days	46	—
	<u>1,951</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

29. AMOUNTS DUE FROM (TO) ASSOCIATES

THE GROUP

The amounts are unsecured and repayable on demand.

The amounts are non-interest bearing except an amount of HK\$50,000,000 due to an associate in 2000 which bore interest at Hong Kong prime interest rate.

THE COMPANY

The amounts are unsecured, non-interest bearing and repayable on demand.

30. TRADE PAYABLES

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

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 to 30 days	1,921	—
31 to 90 days	2,395	—
Over 90 days	2,566	—
	<u>6,882</u>	<u>—</u>

31. ACCRUED CHARGES, RENTAL DEPOSITS AND OTHER PAYABLES

THE GROUP

The balance includes an amount of HK\$58,628,000 payable to a minority shareholder of a subsidiary in relation to construction works rendered for properties. The amount is unsecured, interest free and repayable on demand.

32. OTHER LOAN

THE GROUP AND THE COMPANY

The loan is unsecured, bears interest at Hong Kong prime interest rate and is repayable within one year.

Notes to the Financial Statements

For the year ended 31st December, 2001

33. PROVISION IN RESPECT OF BORROWINGS OF ASSOCIATE

In relation to the restructuring of the shareholding of ICC as explained in note 23, the bank loan of originally borrowed by ICC with outstanding amount of HK\$297 million was also restructured and refinanced by the bank. The bank has granted a new loan of the same amount to NMIL and the Company has undertaken to China Minmetal pursuant to the agreements to restructure the shareholding of ICC to be wholly responsible to repay the bank loan of HK\$297 million of NMIL granted by the bank and the related interest thereon. As a result, this obligation is recorded as a provision in respect of borrowings of associate in the balance sheet of the Group and the Company. The related obligation as at 31st December, 2001 will be repayable as follows:

	THE GROUP AND THE COMPANY
	HK\$'000
Within 1 year	44,550
Between 1 - 2 years	<u>222,750</u>
	267,300
Less: Amount due within one year and included under current liabilities	<u>(44,550)</u>
Amount due after one year	<u><u>222,750</u></u>

The Group has also executed a guarantee in favour of the bank in respect of the bank loan of HK\$297 million granted by the bank to NMIL.

Notes to the Financial Statements

For the year ended 31st December, 2001

34. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
Balance at 1st January, 2000, 31st December, 2000 and 31st December, 2001	2,000,000,000	400,000
Issued and fully paid:		
Balance at 1st January, 2000	892,362,900	178,473
Subscription of shares	178,468,000	35,694
Placement of shares	213,800,000	42,760
Issue of shares upon exercise of warrants	53,200	10
Balance at 31st December, 2000	1,284,684,100	256,937
Issue of shares upon exercise of warrants	83,173,511	16,634
Issue of shares upon exercise of share options	2,000,000	400
Repurchase of shares	(57,636,000)	(11,527)
Balance at 31st December, 2001	1,312,221,611	262,444

During the year ended 31st December, 2001, the Company has the following movements in the share capital:

- 83,173,511 shares were issued as a result of the exercise of warrants to subscribe for the Company's shares for cash at HK\$0.84 per share.
- 2,000,000 shares were issued as a result of the exercise of share options by a director to subscribe for the Company's shares for cash at HK\$0.535 per share.
- The Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares purchased	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
May 2001	8,500,000	0.97	0.94	8,187
June 2001	49,136,000	0.99	0.94	48,298
	<u>57,636,000</u>			<u>56,485</u>

The above shares were cancelled upon repurchase.

Notes to the Financial Statements

For the year ended 31st December, 2001

35. SHARE OPTIONS

Pursuant to an ordinary resolution of the Company passed at the annual general meeting held on 26th June, 1995, the Company adopted a share option scheme (the "Scheme") on that date for the primary purpose of incentive to the directors and eligible employees. According to the Scheme, the board of directors of the Company are authorised, at any time within 10 years after the adoption date, to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80 per cent. of the average of closing prices of the Company's shares on the five trading days immediately preceding the offer date of the options or the nominal value of the Company's shares, whichever is higher. The maximum number of shares in respect of which options may be granted under the Scheme cannot exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company from time to time.

Movements during the year of share options under the Scheme are set out as below:

Subscription price per share HK\$	Exercisable period	Number of share options				Outstanding at 31.12.2001
		Outstanding at 1.1.2001	Granted during the year	Exercise during the year	Lapsed during the year	
0.967	9.1.1997 - 8.1.2007	30,000,000	—	—	—	30,000,000
0.900	27.7.1999 - 26.7.2009	24,000,000	—	—	(4,000,000)	20,000,000
0.535	25.7.2001 - 24.7.2011	—	28,000,000	(2,000,000)	—	26,000,000
		<u>54,000,000</u>	<u>28,000,000</u>	<u>(2,000,000)</u>	<u>(4,000,000)</u>	<u>76,000,000</u>

36. WARRANTS

Pursuant to the resolution passed at the extraordinary general meeting of the Company on 28th June, 1999, a bonus issue of 89,234,350 warrants with subscription rights of HK\$78,526,228 was granted to the shareholders of the Company on the basis of one bonus warrant for every 10 shares then held by them. Each bonus warrant entitles the holder to subscribe in cash at an initial subscription price of HK\$0.88 per share, subject to adjustment, at any time up to and including 30th June, 2001. As a result of the placement of shares in the Company which was completed on 7th March, 2000, the subscription price of the warrant was adjusted to HK\$0.84 per share.

At 1st January, 2001, warrants with subscription rights of HK\$78,462,340 were outstanding. During the year and up to 30th June, 2001, warrants with subscription rights of HK\$69,865,750 were exercised and 83,173,511 new shares were issued. The remaining warrants with subscription rights of HK\$8,596,590 lapsed on 30th June, 2001. No warrants were outstanding at 31st December, 2001.

Notes to the Financial Statements

For the year ended 31st December, 2001

37. RESERVES

	Investment properties		Asset	Goodwill reserve	Capital reserve	Other reserve	Exchange reserve	Accumulated profits	Total
	Share premium	revaluation reserve	revaluation reserve						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
At 1st January, 2000	944,559	90,757	13,546	—	—	18,086	656	385,123	1,452,727
Premium on issue of shares	261,424	—	—	—	—	—	—	—	261,424
Issue costs	(3,823)	—	—	—	—	—	—	—	(3,823)
Surplus arising on revaluation of investment properties	—	5,200	—	—	—	—	—	—	5,200
Deferred taxation on revaluation surplus of properties situated in the PRC	—	(1,170)	—	—	—	—	—	—	(1,170)
Surplus arising on revaluation of leasehold properties	—	—	1,120	—	—	—	—	—	1,120
Share of reserves of associates	—	—	—	—	—	(48)	(3,661)	—	(3,709)
Goodwill arising on acquisition of an associate	—	—	—	(41,912)	—	—	—	—	(41,912)
Goodwill arising on acquisition of an associate realised upon dilution of interest in an associate	—	—	—	13,610	—	—	—	—	13,610
Capital reserve arising on acquisition of additional interest in an associate	—	—	—	—	12,233	—	—	—	12,233
Transfer of accumulated profits to other reserve in associates	—	—	—	—	—	5,377	—	(5,377)	—
Net profit for the year	—	—	—	—	—	—	—	32,702	32,702
At 31st December, 2000, as restated	<u>1,202,160</u>	<u>94,787</u>	<u>14,666</u>	<u>(28,302)</u>	<u>12,233</u>	<u>23,415</u>	<u>(3,005)</u>	<u>412,448</u>	<u>1,728,402</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

37. RESERVES — *continued*

	Share premium	Investment properties revaluation reserve	Asset revaluation reserve	Goodwill reserve	Capital reserve	Other reserve	Exchange reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP — <i>continued</i>									
At 31st December, 2000,									
as restated	1,202,160	94,787	14,666	(28,302)	12,233	23,415	(3,005)	412,448	1,728,402
Premium on issue of shares	53,901	—	—	—	—	—	—	—	53,901
Repurchase of shares	(44,958)	—	—	—	—	—	—	—	(44,958)
Issue costs	(366)	—	—	—	—	—	—	—	(366)
Deficit arising on revaluation of investment properties	—	(101,039)	—	—	—	—	—	—	(101,039)
Reversal of deferred taxation on revaluation deficit of properties situated in the PRC	—	3,839	—	—	—	—	—	—	3,839
Share of investment properties revaluation reserves attributable to minority shareholders	—	11,086	—	—	—	—	—	—	11,086
Realised upon disposal of investment properties	—	(8,673)	—	—	—	—	—	—	(8,673)
Surplus arising on revaluation of leasehold properties	—	—	192	—	—	—	—	—	192
Share of reserves of associates	—	—	—	—	—	(308)	1,891	—	1,583
Share of impairment loss on reserve of associates	—	—	—	—	—	—	3,381	—	3,381
Reserves realised on disposal of associates	—	—	—	—	—	(6,383)	838	—	(5,545)
Transfer of accumulated profits to other reserve in associates	—	—	—	—	—	11,582	—	(11,582)	—
Net profit for the year	—	—	—	—	—	—	—	62,446	62,446
Dividend paid	—	—	—	—	—	—	—	(12,847)	(12,847)
At 31st December, 2001	<u>1,210,737</u>	<u>—</u>	<u>14,858</u>	<u>(28,302)</u>	<u>12,233</u>	<u>28,306</u>	<u>3,105</u>	<u>450,465</u>	<u>1,691,402</u>

The accumulated profits of the Group include profits of HK\$49,048,000 (2000: loss of HK\$175,756,000) retained by the Group's associates.

Other reserve comprises the Group's share of statutory surplus reserve and discretionary surplus reserve of the associates in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2001

37. RESERVES — *continued*

	Share premium HK\$'000	Investment properties revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY					
At 1st January, 2000					
- as originally stated	944,559	85,001	13,546	223,730	1,266,836
- prior period adjustment in respect of derecognition of dividend receivables by the Company declared by the Company's subsidiary after 1st January, 2000 (<i>note 2</i>)	—	—	—	(440,000)	(440,000)
At 1st January, 2000, as restated	944,559	85,001	13,546	(216,270)	826,836
Premium on issue of shares	261,424	—	—	—	261,424
Issue costs	(3,823)	—	—	—	(3,823)
Surplus arising on revaluation of investment properties	—	2,100	—	—	2,100
Surplus arising on revaluation of leasehold properties	—	—	1,120	—	1,120
Net profit for the year	—	—	—	355,001	355,001
At 31st December, 2000, as restated	1,202,160	87,101	14,666	138,731	1,442,658
Premium on issue of shares	53,901	—	—	—	53,901
Premium on repurchase of shares	(44,958)	—	—	—	(44,958)
Issue costs	(366)	—	—	—	(366)
Deficit arising on revaluation of investment properties	—	(11,152)	—	—	(11,152)
Realised upon disposal of an investment property	—	(8,673)	—	—	(8,673)
Surplus arising on revaluation of leasehold properties	—	—	192	—	192
Net profit for the year	—	—	—	47,874	47,874
Dividend paid	—	—	—	(12,847)	(12,847)
At 31st December, 2001	1,210,737	67,276	14,858	173,758	1,466,629

The Company's reserves available for distribution to shareholders as at 31st December, 2001 represents the accumulated profits of HK\$173,758,000 (2000: HK\$138,731,000).

Notes to the Financial Statements

For the year ended 31st December, 2001

38. SECURED BANK LOANS

The bank loans bear interest at commercial rates and are secured by certain investment properties, leasehold properties and listed securities of the Group (see note 50). The balance is repayable within the following periods:

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	636,136	1,460
Between 1-2 years	—	1,612
Between 2-5 years	—	5,831
Over 5 years	—	15,022
	<u>636,136</u>	<u>23,925</u>
Less: Amount due within one year included under current liabilities	<u>(636,136)</u>	<u>(1,460)</u>
Amount due after one year	<u>—</u>	<u>22,465</u>

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	59,500	1,460
Between 1-2 years	—	1,612
Between 2-5 years	—	5,831
Over 5 years	—	15,022
	<u>59,500</u>	<u>23,925</u>
Less: Amount due within one year included under current liabilities	<u>(59,500)</u>	<u>(1,460)</u>
Amount due after one year	<u>—</u>	<u>22,465</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

39. CONVERTIBLE BONDS

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Convertible bonds	293,943	448,305
Less: Direct issuance cost (<i>note 40</i>)	(902)	(4,128)
	<u>293,041</u>	<u>444,177</u>
Less: Amount due within one year under current liabilities	(293,041)	—
	<u>—</u>	<u>444,177</u>
Amount due after one year	—	444,177

The Group issued US\$100,000,000 and US\$15,000,000 one per cent. convertible guaranteed bonds due 2004 (the “Bonds”) on 19th August, 1997 and 25th September, 1997 respectively. Unless previously redeemed or purchased and cancelled, each holder of the Bonds has the option to convert the Bonds into fully-paid shares with a par value of HK\$0.20 each in the Company at an initial conversion price of HK\$5.52 per share, subject to adjustments, at any time upto, and including 5th August, 2004 and with a fixed rate of exchange on conversion of HK\$7.7414 = US\$1.00. The conversion price of the Bonds was adjusted to HK\$5.29 per share on 7th March, 2001 as a result of the placement of shares in the Company. The Bonds may be redeemed at the option of the holder of the Bonds on 19th August, 2002 at 142.025 per cent. of the principal amount of the Bonds plus accrued interest. Subject to certain conditions, the Bonds are redeemable at the option of the Group at any time on or after 23rd August, 2001 and prior to 19th August, 2004 at the principal amount of the Bonds plus accrued interest and a premium calculated in accordance with the number of days the Bonds have been outstanding at an annual interest rate of approximately 7 per cent.. If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at the principal amount plus accrued interest on 19th August, 2004.

The Bonds are listed on the Luxembourg Stock Exchange. The Bonds bear interest at 1 per cent. per annum, payable annually in arrears.

During the year, the Group repurchased certain Bonds with total principal amount of US\$19,790,000 at an aggregate consideration of approximately US\$25,055,000. The relevant Bonds were cancelled upon repurchase. The total principal amount of the Bonds in issue as at 31st December, 2001 amounted to US\$37,685,000 (2000: US\$57,475,000).

Notes to the Financial Statements

For the year ended 31st December, 2001

40. DIRECT ISSUANCE COSTS OF CONVERTIBLE BONDS

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Balance at 1st January	4,128	7,505
Less: Amortisation for the year	(1,804)	(2,752)
Written off upon repurchase of convertible bonds	(1,422)	(625)
Balance at 31st December	<u>902</u>	<u>4,128</u>

The amount represents direct issuance costs incurred in relation to the Bonds as explained in note 39, as reduced by subsequent amortisation and write off upon conversion or repurchase.

41. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance brought forward	3,839	2,669	—	—
Reversal of deferred taxation on revaluation surplus of properties situated in the PRC	(3,839)	—	—	—
Deferred taxation on revaluation surplus of properties situated in the PRC	—	1,170	—	—
Balance carried forward	<u>—</u>	<u>3,839</u>	<u>—</u>	<u>—</u>

The major component of the deferred taxation liability provided for in the financial statements at 31st December, 2000 was attributable to the surplus arising on revaluation of properties situated in the PRC.

The surpluses arising on revaluation of land and buildings situated in Hong Kong and on revaluation of investments in securities other than those trading securities do not constitute a timing difference for taxation purposes as any profit arising on their subsequent disposal would not be subject to taxation.

Notes to the Financial Statements

For the year ended 31st December, 2001

41. DEFERRED TAXATION — *continued*

At the balance sheet date, the major components of the deferred taxation asset (liability) not recognised in the financial statements are as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess of depreciation allowance claimed for tax purposes over depreciation charged in the financial statements	(241)	(326)	(240)	(325)
Unutilised tax losses	9,142	10,167	8,099	9,894
	<u>8,901</u>	<u>9,841</u>	<u>7,859</u>	<u>9,569</u>

No deferred taxation asset is recognised in the financial statements as it is uncertain that the benefits of the tax losses will crystallise in the foreseeable future.

The major components of the deferred taxation (charge) credit not recognised during the year are as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Difference of depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	85	45	85	45
Tax losses arising during the year	770	3,412	—	3,412
Tax losses utilised	(1,795)	(51)	(1,795)	—
	<u>(940)</u>	<u>3,406</u>	<u>(1,710)</u>	<u>3,457</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

42. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	73,211	34,994
Share of results of associates	(14,201)	59,827
Amortisation of direct issuance costs of convertible bonds	1,804	2,752
Amortisation of goodwill	5,588	—
Repair and maintenance fund expensed	1,371	1,371
Depreciation	5,375	2,833
Exchange loss arising from translation of convertible bonds	—	4,076
Interest income	(33,864)	(15,338)
Release of negative goodwill	(5,936)	—
Interest expense	79,208	55,633
Loss (profit) on repurchase of convertible bonds	1,127	(11,683)
Loss on disposal of investment securities	1,930	—
Loss on disposal of property, plant and equipment	35	—
Gain on deemed disposal of interests in an associate	—	(94,163)
Gain on restructure of shareholding of an associate	(5,763)	—
Gain on disposal of associates	(10,372)	—
Gain on disposal of subsidiaries	(161)	—
Unrealised gain on other investments other than those trading securities	(176)	(1,173)
Deficit on revaluation of investment properties	2,635	—
Deficit on revaluation of leasehold land and buildings	2,178	780
Reversal of deficit on revaluation of leasehold land and buildings	(187)	(1,117)
Realised gain on other investments	(20,410)	(8,533)
Gain on disposal of an investment property	(4,103)	—
Loan and interests in respect of amount due from a former shareholder of an associate recovered	(93,737)	—
Write off of interest and other receivables	17,031	—
Allowance for deposits on acquisition of leasehold properties	26,555	—
Allowance for bad and doubtful debts	—	6,102
Increase in inventories	(410)	—
Increase in trade receivables	(1,951)	—
(Increase) decrease in deposits, prepayments and other receivables	(100,819)	22,291
Decrease in guaranteed rental receivable	—	16,010
(Increase) decrease in marketable securities	(23,258)	711
Decrease in trade payables	(10,152)	—
Decrease in accrued charges, rental deposits and other payables	(119,742)	(25,135)
Net cash (outflow) inflow from operating activities	<u>(227,194)</u>	<u>50,238</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

43. ACQUISITION OF SUBSIDIARIES

In February 2001, the Group has acquired 58.5% equity interest in 北京東環置業有限公司 Beijing East Gate Development Co., Ltd. (“East Gate”) by way of injection of its investment properties situated in the PRC with carrying value amounting to HK\$468,000,000 as contribution to the registered capital of East Gate. Straight View Investment Limited (“Straight View”) and its 90% interest subsidiary, 北京銀達物業管理有限責任公司 Beijing Yinda Property Management Limited which is engaged in property management, were acquired by the Group in January 2001 at a consideration of HK\$56,000,000.

	2001		2000
	East Gate HK\$'000	Straight View HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	1,990	1,186	—
Investment properties	1,586,951	—	—
Investments in securities	12,255	—	—
Inventories	—	274	—
Other receivables, deposits and prepayment	112,601	11,869	—
Amount due from a minority shareholder	1,482	—	—
Taxation recoverable	11,333	—	—
Bank balances and cash	21,958	38,154	—
Accounts payables	—	(17,034)	—
Other payables, rental deposits and accrued charges	(291,959)	(33,235)	—
Tax payables	—	(127)	—
Bank loans	(515,888)	—	—
Amount due to former immediate holding company	(14,824)	—	—
Minority interests	(384,248)	(961)	—
	<u>541,651</u>	<u>126</u>	—
Negative goodwill	(73,651)	—	—
Goodwill	—	55,874	—
	<u>468,000</u>	<u>56,000</u>	—
Satisfied by:			
Investment properties injected to East Gate	468,000	—	—
Deposit for acquisition of a subsidiary	—	56,000	—
	<u>468,000</u>	<u>56,000</u>	—

Notes to the Financial Statements

For the year ended 31st December, 2001

43. ACQUISITION OF SUBSIDIARIES — *continued*

	2001		2000
	East Gate	Straight View	
	HK\$'000	HK\$'000	HK\$'000
Net cash inflow arising on acquisition:			
Bank balances and cash acquired	<u>21,958</u>	<u>38,154</u>	<u>—</u>

The subsidiaries acquired during the year paid HK\$36,189,000 in respect of the Group's net operating cash flows, paid HK\$35,894,000 in respect of the net returns on investments and service of finance, paid HK\$1,973,000 in respect of taxation, utilised HK\$88,941,000 for investing activities and raised HK\$163,551,000 in respect of financing activities.

The acquired subsidiaries contributed HK\$110,454,000 and HK\$53,957,000 to the turnover and profit from operations of the Group respectively.

44. DISPOSAL OF SUBSIDIARIES

	2001	2000
	HK\$'000	HK\$'000
Net assets disposed of:		
Amounts due to group companies	(311)	—
Accrued charges	<u>(12)</u>	<u>—</u>
	(323)	—
Gain on disposal	<u>161</u>	<u>—</u>
Reclassified to interest in associates	<u>162</u>	<u>—</u>

The subsidiaries disposed of during the year did not contribute significantly to the Group's operating results and cash flows for the year.

Notes to the Financial Statements

For the year ended 31st December, 2001

45. ANALYSIS OF CHANGES IN FINANCING ACTIVITIES DURING THE YEAR

	Share capital and premium	Amounts due to associates	Convertible bonds	Secured bank loans	Provision in respect of borrowings of associate	Other loan	Minority interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2000	1,123,032	26,356	484,985	79,207	—	—	—
Issue of shares	339,888	—	—	—	—	—	—
Issue costs	(3,823)	—	—	—	—	—	—
Exchange loss arising from translation of convertible bonds	—	—	4,076	—	—	—	—
Convertible bonds repurchased	—	—	(40,756)	—	—	—	—
Advances	—	50,000	—	—	—	—	—
Repayments	—	—	—	(55,282)	—	—	—
At 31st December, 2000	1,459,097	76,356	448,305	23,925	—	—	—
Issue of shares	70,935	—	—	—	—	—	—
Repurchase of shares	(56,485)	—	—	—	—	—	—
Issue costs	(366)	—	—	—	—	—	—
Provision in respect of borrowings of associate made	—	—	—	—	297,000	—	—
Convertible bonds repurchased	—	—	(154,362)	—	—	—	—
Set off against amount due from an associate	—	—	—	58,500	—	—	—
On acquisition of subsidiaries	—	—	—	515,888	—	—	385,209
Decrease on acquisition of additional interests in a subsidiary	—	—	—	—	—	—	(274,043)
Movements of investment property revaluation reserve attributable to minority shareholders	—	—	—	—	—	—	(11,086)
Profit for the year attributable to minority shareholders	—	—	—	—	—	—	4,512
Loans obtained	—	—	—	1,044,925	—	100,000	—
Repayments	—	(50,000)	—	(1,007,102)	(29,700)	—	—
At 31st December, 2001	1,473,181	26,356	293,943	636,136	267,300	100,000	104,592

Notes to the Financial Statements

For the year ended 31st December, 2001

46. MAJOR NON CASH TRANSACTIONS

During the year, the Group entered into the following non-cash transactions:

- (a) The Group acquired a 58.5% equity interest in East Gate by way of injection of its investment properties situated in the PRC as contribution to the registered capital of East Gate. The carrying amount of investment properties injected amounted to HK\$468,000,000.
- (b) Other receivables of RMB70,000,000 (equivalent to approximately HK\$65,420,000) was settled in form of investment properties.
- (c) The Group has entered into an agreement with CII, an associate of the Group, to assign a bank loan of HK\$58,500,000 which was originally borrowed by CII. As a result, amount due from the associate has been decreased by this amount accordingly.
- (d) The Group has subscribed 499,400,000 shares of CII for a consideration of HK\$499,400,000 by way of capitalisation of its shareholders' loan to CII of the same amount.
- (e) The Group has capitalised its loan to ICC, including the accrued interest thereon, of HK\$247,700,000 in total as investment cost of NMIL (BVI), the holding company of ICC. As a result, the Group's interest in associates has been increased by this amount.
- (f) The Group has undertaken to China Minmetals, the other shareholder of NMIL (BVI), to be wholly responsible to repay the bank loan of HK\$297,000,000, and the accrued interest thereon, which is borrowed by NMIL, a wholly owned subsidiary of NMIL (BVI). This obligation was capitalised as part of the investment cost of NMIL (BVI). As a result, the Group's interest in associates has been increased by this amount.

47. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001	2000
	HK\$'000	HK\$'000
Bank balances and cash	204,839	263,512
Secured bank overdrafts	(30,434)	(52,219)
	<u>174,405</u>	<u>211,293</u>

Notes to the Financial Statements

For the year ended 31st December, 2001

48. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At the balance sheet date, the Group and the Company had outstanding commitments under non-cancellable operating leases in respect of land and buildings. The portion of these commitments which is payable in the following year is as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:				
Within one year	190	456	1,390	3,456
In the second to fifth year inclusive	—	190	—	190
	<u>190</u>	<u>456</u>	<u>1,390</u>	<u>3,646</u>

The Group as lessor:

Property rental income earned during the year was HK\$67,524,000 (2000: HK\$72,600,000). The property held has committed tenants for lease terms ranged from 1 year to 18 years.

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

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	52,346	3,580	3,517	3,580
In the second to fifth year inclusive	52,303	1,267	1,710	1,266
After five years	34,575	—	—	—
	<u>139,224</u>	<u>4,847</u>	<u>5,227</u>	<u>4,846</u>

49. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had no significant capital commitments.

50. PLEDGE OF ASSETS

The Group has pledged its investment properties and leasehold properties which have an aggregate carrying value at the balance sheet date of approximately HK\$1,581.2 million (2000: HK\$108.2 million) and HK\$31.0 million (2000: HK\$45.7 million) respectively to secure general banking facilities granted to the Group. As at 31st December, 2000, investments in securities with an aggregate carrying value of HK\$29.9 million were also pledged to secured general banking facilities granted to the Group.

The Group has also pledged its investment in NMIL (BVI) in favour of a bank to secure a bank loan granted to NMIL of HK\$297 million. The Group has also executed a second mortgage over certain investment properties and leasehold properties pledged to a bank with carrying value at the balance sheet date of approximately HK\$64.3 million and HK\$13 million respectively to secure the bank loan granted to NMIL.

As at 31st December, 2000, the Group had pledged its investment in ICC and also subordinated a receivable from ICC amounting to approximately HK\$144,601,000 and interest receivable of HK\$12,578,000 as at 31st December, 2000, in favour of a bank to secure a bank loan granted to ICC of HK\$330 million. The Group had also executed a second mortgage over certain investment properties and leasehold properties pledged to a bank with carrying value at the balance sheet date of approximately HK\$83.7 million and HK\$14.7 million respectively to secure the bank loan granted to ICC.

51. CONTINGENT LIABILITIES

THE GROUP AND THE COMPANY

- (a) The Company has provided a guarantee in respect of a bank loan granted to a wholly-owned subsidiary of an associate amounting to approximately HK\$233,645,000 (2000: HK\$233,645,000), to the extent of 52% of the loan balance. The amount of the bank loan outstanding as at 31st December, 2001 amounted to approximately HK\$233,645,000 (2000: HK\$154,206,000).
- (b) The Company, together with one of the Group's associates, SilverNet, have provided certain warranties in relation to the accounts, assets and liabilities of SilverNet to certain new investors who subscribed for an equity interest in SilverNet. The maximum potential liabilities of the Company towards the new investors in respect of all claims under such warranties will not exceed the amount of the subscription consideration of the new investors amounting to HK\$220 million. A relevant investor will, prior to bringing any claims against the Company under such warranties, claim against SilverNet in respect of such warranties. The Company will only be required to pay to such investor the shortfall in the compensation or damages by reason of SilverNet's failure to make such full payment or by reason of that investor's attributable contribution to such compensation or damages.

No claim has been received by the Company under such warranties.

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For the year ended 31st December, 2001

51. CONTINGENT LIABILITIES — *continued*

- (c) As at 31st December, 2000, the Group had executed a joint and several guarantee together with other shareholders of an associate, in respect of a bank loan granted to that associate of HK\$232,200,000. The bank loan outstanding at 31st December, 2000 amounted to HK\$58,050,000.
- (d) As at 31st December, 2000, the Company had executed a joint and several guarantee, together with CNM Holdings, a former shareholder of ICC, in respect of a bank loan granted to ICC of HK\$330 million. The joint and several guarantee was released upon the restructure of the shareholding of ICC during the year.

THE COMPANY

The Company guaranteed the issue of US\$115 million convertible bonds by Silver Grant International Industries (Cayman) Limited, the Company's wholly owned subsidiary. At 31st December, 2001, the total convertible bonds outstanding amounted to approximately US\$38 million (2000: US\$57 million). The Bonds may be redeemed at the option of the holders of the Bonds on 19th August, 2002 at 142.025 per cent. of their principal amount plus accrued interest. Unpaid interest and premium on redemption in respect of the bonds accrued up to 31st December, 2001 amounted to HK\$106,950,000 (2000: HK\$121,800,000).

52. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2001	2000
	HK\$'000	HK\$'000
Interest income from an associate (<i>note a</i>)	18,068	—
Rental income from an associate (<i>note b</i>)	1,322	—
Property management fee income from an associate (<i>note b</i>)	208	—
Rental income under guaranteed return from the investment property purchased from East Gate (<i>note c</i>)	—	43,410
Interest expense paid to an associate (<i>note a</i>)	1,090	3,200

52. RELATED PARTY TRANSACTIONS — *continued*

In addition, the Group had the following transactions during the year ended 31st December, 2001 with a company in which certain directors had interests:

- (i) On 23rd December, 2000, the Group entered into a conditional agreement (“Capital Agreement”) with two existing shareholders of East Gate, namely Silver Grant International Beijing Investment Limited (“SGIBI”) and 中國北京市東城區華興房地產開發建設經營公司 (“Huaxing”), and 北京市第五建築工程公司 (“Wujian”) whereby the Group agreed to inject US\$58,743,500, either in form of cash or in form of asset being the Group’s investment property located in the residential floors of South Tower of East Gate Plaza, Beijing, the People’s Republic of China, as registered capital of East Gate. Pursuant to the Capital Agreement, SGIBI also agreed to transfer its interest in US\$16,668,000 of the registered capital in East Gate to Wujian at a consideration of US\$16,668,000. The above transactions were approved at the extraordinary general meeting of the Company held on 6th February, 2001 and completed on the same date. Upon completion of the Capital Agreement, the Group injected its property at East Gate Plaza as consideration for its contribution to the registered capital of East Gate and the Group, SGIBI, Huaxing and Wujian collectively share approximately 58.5%, 16.6%, 8.3% and 16.6% of the profits and losses of East Gate respectively.

Mr. Hui Xiao Bing, Mr. Gao Jian Min and Mr. Xu Shi Quan who are the directors of the Company are interested in 35%, 30% and 30% in the issued share capital of SGIBI respectively. SGIBI is entitled to share 80% of the profits and losses of East Gate prior to the signing of the Capital Agreement mentioned above.

- (ii) Two conditional agreements dated 19th June, 2001 were entered into between the Group and SGIBI (the “SGIBI Agreement”) and the Group and Wujian (the “Wujian Agreement”) respectively under which the Group acquired 16.6% interest and 12.8% interest in East Gate from SGIBI and Wujian for cash consideration of US\$16,668,000 and US\$12,852,400 respectively (equivalent to approximately HK\$228,990,000 in total). Upon the completion of these two agreements and after the transfer of 0.5% interest in East Gate by Wujian to two PRC parties, the Group, Huaxing, Wujian and the two PRC parties collectively share approximately 87.9%, 8.3%, 3.3% and 0.5% of the profits and losses of East Gate respectively.

Prior to the signing of the SGIBI Agreement and Wujian Agreement, both SGIBI and Wujian are entitled to share 16.6% of the profits and losses of East Gate respectively.

Notes:

- (a) Interest income and expenses are charged based on the prevailing market interest rate.
- (b) The transactions were carried out on terms similar to those applicable to transactions with unrelated parties.
- (c) In accordance with the terms set out in the sale and purchase agreement dated 27th November, 1997 between the Company and East Gate, the Group was entitled to a guaranteed return which was equal to an annual yield of 10% on the purchase consideration from the date on which the Group fully settled the purchase consideration until 30th June, 1998 and an annual yield of 15% on the purchase consideration for the period from 1st July, 1998 to the end of the three year period from the date the Group fully settled the purchase consideration.

Details of balances with related companies and other transactions with related parties are set out in the consolidated balance sheet on pages 20 and 21 and in notes 23, 26, 29 and 31 to the financial statements.

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53. SEGMENT INFORMATION

(A) Business segments

The Group is organised into six operating divisions - investments, property leasing, property management, infrastructure projects, e-commerce business and retail management. These operating divisions are the basis on which the Group reports its primary segment information.

(i) An analysis of the Group's turnover and results by business segments is as follows:

	Investments HK\$'000	Property leasing HK\$'000	Property management HK\$'000	Infrastructure projects HK\$'000	e-commerce business HK\$'000	Retail management HK\$'000	Total HK\$'000
Year ended							
31st December, 2001							
Turnover	20,982	67,524	46,935	—	—	—	135,441
Result							
Segment result	8,383	44,950	6,032	—	—	—	59,365
Recovery of loan and accrued interest in respect of an amount due from a former shareholder of an associate previously written off							93,737
Loss on repurchase of convertible bonds							(1,127)
Deficit/reversal of deficit arising on revaluation of leasehold land and building (net)							(1,991)
Provision for deposits on acquisition of leasehold properties in the PRC							(26,555)
Unallocated corporate expenses							(33,567)
Finance cost (net)							(47,148)
Gain on restructure of shareholding of an associate							5,763
Gain on disposal of associates							10,372
Gain on disposal of subsidiaries							161
Share of results of associates	3,958	(2,691)	—	69,276	(42,329)	(14,013)	14,201
Profit before taxation							73,211
Taxation							(6,253)
Profit after taxation							66,958
Minority interests	—	(4,087)	(425)	—	—	—	(4,512)
Net profit for the year							62,446

Notes to the Financial Statements

For the year ended 31st December, 2001

53. SEGMENT INFORMATION — *continued*

(A) Business segments — *continued*

(i) An analysis of the Group's turnover and results by business segments is as follows: — *continued*

	Investments HK\$'000	Property leasing HK\$'000	Property management HK\$'000	Infrastructure projects HK\$'000	e-commerce business HK\$'000	Retail management HK\$'000	Total HK\$'000
Year ended							
31st December, 2000							
Turnover	<u>7,307</u>	<u>72,600</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>79,907</u>
Result							
Segment result	4,075	50,390	—	—	—	—	54,465
Gain on repurchase of convertible bonds							11,683
Reversal of deficit arising on revaluation of leasehold land and building (net)							337
Unallocated corporate expenses							(22,780)
Finance cost (net)							(43,047)
Gain on deemed disposal of interest in an associate	—	—	—	—	94,163	—	94,163
Share of results of associates	(53,066)	(1,528)	—	28,621	(22,226)	(11,628)	(59,827)
Profit before taxation							34,994
Taxation							(2,292)
Net profit for the year							<u>32,702</u>

(ii) Other information

	Investments HK\$'000	Property leasing HK\$'000	Property management HK\$'000	Infrastructure projects HK\$'000	e-commerce business HK\$'000	Retail management HK\$'000	Corporate level HK\$'000	Total HK\$'000
Year ended 31st December, 2001								
Capital additions								
- upon acquisition of subsidiaries	—	1,120,941	1,186	—	—	—	—	1,122,127
- additions	—	62,012	2,911	—	—	—	30	64,953
Depreciation	3	676	591	—	—	—	4,105	5,375
Amortisation of direct issuance								
cost of convertible bonds	—	—	—	—	—	—	1,804	1,804
Amortisation of goodwill	—	—	5,588	—	—	—	—	5,588
Release of negative goodwill	—	5,936	—	—	—	—	—	5,936
Year ended 31st December, 2000								
Capital additions								
	—	—	—	—	—	—	36,538	36,538
Depreciation and amortisation	3	—	—	—	—	—	2,830	2,833
Amortisation of direct issuance								
cost of convertible bonds	—	—	—	—	—	—	2,752	2,752

Notes to the Financial Statements

For the year ended 31st December, 2001

53. SEGMENT INFORMATION — *continued*

(A) Business segments — *continued*

(iii) An analysis of the Group's balance sheet by principal activities is as follows:

	Investments	Property leasing	Property management	Infrastructure projects	e-commerce business	Retail management	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31st December, 2001							
Assets							
Segment assets	293,427	1,811,402	49,209	—	—	—	2,154,038
Goodwill	—	—	50,286	—	—	—	50,286
Negative goodwill	—	(112,768)	—	—	—	—	(112,768)
Interests in associates	438,874	10,302	—	654,629	110,814	158,449	1,371,068
Tax recoverable							11,334
Unallocated corporate assets							271,383
Consolidated total assets							<u>3,745,341</u>
Liabilities							
Segment liabilities	(282,538)	(173,576)	(37,104)	—	—	—	(493,218)
Amount due to associate	(26,356)	—	—	—	—	—	(26,356)
Tax payable							(368)
Unallocated corporate liabilities							<u>(1,166,962)</u>
Consolidated total liabilities							<u>(1,686,904)</u>
As at 31st December, 2000							
Assets							
Segment assets	106,949	651,205	—	—	—	—	758,154
Interest in associates	370,336	12,924	—	722,645	151,079	168,884	1,425,868
Unallocated corporate assets							<u>529,396</u>
Consolidated total assets							<u>2,713,418</u>
Liabilities							
Segment liabilities	(81,414)	(38)	—	—	—	—	(81,452)
Deferred taxation							(3,839)
Unallocated corporate liabilities							<u>(642,788)</u>
Consolidated total liabilities							<u>(728,079)</u>

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For the year ended 31st December, 2001

53. SEGMENT INFORMATION — *continued*

(B) Geographical segments

- (i) An analysis of the Group's turnover and operating profit after finance costs and other income (expenses) by geographical location is as follows:

	Turnover		Operating profit after finance costs and other income (expenses)	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	24,987	11,177	80,228	20,202
The PRC, excluding Hong Kong	110,454	68,730	43,201	46,283
	<u>135,441</u>	<u>79,907</u>	<u>123,429</u>	<u>66,485</u>
Unallocated corporate expenses			(33,567)	(22,780)
Finance cost (net)			(47,148)	(43,047)
Operating profit after finance costs and other income (expenses)			<u>42,714</u>	<u>658</u>

- (ii) An analysis of the carrying amount of segment assets analysed by geographical location in which the assets are located is as follows:

	Segment assets		Additions to fixed assets and goodwill		Additions to negative goodwill	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	757,564	963,510	30	46	—	—
The PRC, excluding Hong Kong	2,976,444	1,749,908	1,237,336	36,491	112,768	—
	<u>3,734,008</u>	<u>2,713,418</u>	<u>1,237,366</u>	<u>36,537</u>	<u>112,768</u>	<u>—</u>

54. POST BALANCE SHEET EVENT

On 8th March, 2002, the Group entered into a conditional sale and purchase agreement with Sinolink Worldwide Holdings Limited (“Sinolink”), a company which is listed on the Hong Kong Stock Exchange, whereby the Group will dispose of 1,089,310,445 shares representing approximately 29.99% of the issued share capital of SilverNet at a total consideration of HK\$163.4 million (or approximately HK\$0.15 per SilverNet share). Approximately 50% of the consideration in the sum of HK\$81.8 million will be settled by cash and approximately 50% of the consideration in the sum of HK\$81.6 million will be settled by way of Convertible Note to be issued by Sinolink with an interest rate of 1% per annum and the Convertible Note will be converted into Sinolink Shares at a conversion price of HK\$0.8 per share, subject to adjustment. Sinolink may at any time after six months from the date of the issue of the Convertible Note by giving prior written notice to the noteholder to redeem the outstanding amount of the Convertible Note together with interest accrued thereon. The Group may at any time on or after 15th August, 2002 by giving Sinolink prior written notice to demand for early redemption of the outstanding amount of the Convertible Note together with interest accrued thereon.

According to the sale and purchase agreement, the Group will also dispose of the remaining 14,179,555 shares representing approximately 0.39% of the issued share capital of SilverNet to independent third parties in the open market at the time of completion of the sale and purchase agreement.

Upon completion of the sale and purchase agreement, the Group will cease to hold any shares of SilverNet and Silvernet will cease to be an associate of the Group.

The transaction has not been completed at the date of this report.

Notes to the Financial Statements

For the year ended 31st December, 2001

55. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES

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

Name of company	Place of incorporation	Nominal value of issued ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company		Principal activity
			Directly	Indirectly	
北京東環置業有限公司 Beijing East Gate Development Co., Ltd.	PRC	US\$100,413,500	—	87.9% (Note)	Property development and investment
北京銀達物業管理 有限責任公司 Beijing Yinda Property Management Limited	PRC	RMB10,000,000	—	90%	Property management
Fantasy Resources Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Greenhill Property Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Likesway Limited	Hong Kong	HK\$2	100%	—	Property holding
Real China Development Limited	Hong Kong	HK\$2	100%	—	Property holding
Silver Grant Department Store (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant Hainan Investment (BVI) Limited	British Virgin Islands	US\$1	100%	—	Inactive
Silver Grant Industrial Investment (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant Industrial Investment (Casting) Limited	British Virgin Islands	US\$1	100%	—	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2001

55. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES — *continued*

(a) Particulars of the Company's subsidiaries at 31st December, 2001 are as follows: — *continued*

Name of company	Place of incorporation	Nominal value of issued ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company		Principal activity
			Directly	Indirectly	
Silver Grant Industrial Investment (Forging) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant Infra-Structure Investment (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant International Department Store Limited	Hong Kong	HK\$2	—	100%	Investment holding
Silver Grant International Industrial Investment (Casting) Limited	Hong Kong	HK\$2	—	100%	Investment holding
Silver Grant International Industrial Investment Limited	Hong Kong	HK\$10,000	—	100%	Investment holding
Silver Grant International Industries (Cayman) Limited	Cayman Islands	US\$2	100%	—	Issue of convertible bonds
Silver Grant International Infra-Structure Investment Limited	Hong Kong	HK\$2	—	100%	Investment holding

Notes to the Financial Statements

For the year ended 31st December, 2001

55. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES — *continued*

(a) Particulars of the Company's subsidiaries at 31st December, 2001 are as follows: — *continued*

Name of company	Place of incorporation	Nominal value of issued ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company		Principal activity
			Directly	Indirectly	
Silver Grant International Securities Investment Limited	Hong Kong	HK\$2	—	100%	Securities trading
Silver Grant Real Estate Company (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant Securities Investment (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Southwind Resources Limited	British Virgin Islands	US\$1	—	100%	Inactive
Straight View Investment Limited	Hong Kong	HK\$100	100%	—	Investment holding
Twin Sparkle Limited	Hong Kong	HK\$2	—	100%	Property holding
Winner Property Limited	British Virgin Islands	US\$1	—	100%	Property investment

Note: 北京東環置業有限公司 (Beijing East Gate Development Co., Ltd.) is a co-operative joint venture company established in the PRC. Under the joint venture agreement, the Group is responsible to contribute US\$96,598,000 to the registered capital of East Gate and share 87.9% of the profits and losses of East Gate.

Notes to the Financial Statements

For the year ended 31st December, 2001

55. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES — *continued*

(a) Particulars of the Company's subsidiaries at 31st December, 2001 are as follows: — *continued*

Other than the investment holding companies incorporated in the British Virgin Islands which have no principal place of operation, and Beijing East Gate Development Co., Ltd. and Yinda Property Management Limited which operate principally in the PRC, all subsidiaries principally operate in Hong Kong.

Other than the convertible bonds issued by Silver Grant International Industries (Cayman) Limited as explained in note 39, no loan capital has been issued by any subsidiaries.

(b) Particulars of the Company's associates at 31st December, 2001 are as follows:

Name of company	Place of incorporation	Proportion of nominal value of issued ordinary share capital held by		Principal activities
		the Group	the Company	
北京王府井百貨商業物業管理有限公司 Beijing Wangfujing Retail Management Co. Ltd.	PRC	50%	—	Under shareholders' voluntary liquidation
CII Limited	Hong Kong	50%	—	Investment in infrastructure projects
Nonferrous Metal International (BVI) Limited	British Virgin Islands	50%	50%	Investment holding in mining and processing of non-ferrous metals business
Ocean Capital Investment Limited	British Virgin Islands	30%	30%	Investment holding
Sanva Properties Limited	British Virgin Islands	35%	35%	Inactive
SilverNet Group Limited	Bermuda	30.28%	—	Investment holding and e-commerce business