

# Notes to Financial Statements

(31 DECEMBER 2001)

## 1. CORPORATE INFORMATION

During the year, the Group was involved in the property investment and property management.

## 2. FUNDAMENTAL ACCOUNTING CONCEPT

These financial statements have been prepared on a going concern basis notwithstanding that the Group had net current liabilities at the balance sheet date of approximately HK\$12.4 million. The directors have made an assessment of the Group's ability to continue as a going concern. When taking into account, inter alia, the expected cash inflows from the property rentals and the jointly-controlled entity, the directors consider that the preparation of these financial statements on a going concern basis is appropriate.

## 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently-issued and revised Statements of Standard Accounting Practice ("SSAPs") are effective for the first time in the preparation of the current year's financial statements, together with a summary of their major effects where applicable:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This SSAP has no major impact for these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The principal impact of the SSAP on the preparation of these financial statements is that all future minimum lease payments and receivables under non-cancellable operating leases are disclosed in note 27 to the financial statements.



### 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management determines whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. As explained in note 5 to the financial statements, the Group has not presented segment information for the year ended 31 December 2001 and 2000 because it has only one business and geographical segment, respectively.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment of business combinations, including the determination of the date of acquisition and the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill on acquisition. The SSAP requires the disclosure of goodwill or negative goodwill in the non-current assets section of the balance sheet, and that such goodwill or negative goodwill is amortised to or recognised in the profit and loss account over its estimated useful life. The Group has adopted the transitional provisions of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain eliminated against or credited to the capital reserve, respectively.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets, together with disclosure requirements, and has had no major impact on these financial statements.

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

# Notes to Financial Statements

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## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

### Basis of consolidation

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

### Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

On disposal of subsidiaries, jointly-controlled entities and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment where it is considered necessary.

### Negative goodwill

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

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Negative goodwill (continued)

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

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

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

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

##### Subsidiaries

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

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

##### Joint venture companies

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

A joint venture company is treated as a jointly-controlled entity if the Company does not have unilateral control, but has joint control over the joint venture company.

# Notes to Financial Statements

(31 DECEMBER 2001)

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint venture companies (continued)

The Group's interests in jointly-controlled entities are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost less goodwill on acquisition and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the jointly-controlled entities, less any impairment losses. The Group's share of post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively.

### Associates

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

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

### Impairment of assets

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

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

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

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



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fixed assets and depreciation

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

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

Leasehold land	1.6%
Buildings	2%
Leasehold improvements	25% – 33 <sup>1</sup> / <sub>3</sub> %
Furniture and fixtures	20% – 25%
Motor vehicles	30%
Office equipment	25%

For the purpose of calculating depreciation on buildings, the building cost is deemed to be 50% of the total cost of land and buildings.

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

##### Investment properties

Investment properties are interests in land and/or buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than 20 years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

# Notes to Financial Statements

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## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Short term investments

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

### Retirement benefits scheme

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

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are credited or charged to the profit and loss account on the straight-line basis over the lease terms.

### Foreign currencies

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

On consolidation, the financial statements of the overseas jointly-controlled entity are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### Deferred tax

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



## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

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

### Cash equivalents

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

### Revenue recognition

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

- (a) rental and management fee income, on a time proportion basis over the lease terms;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) profit on trading of listed investments, on the transaction date;
- (d) dividend income, when the shareholders' right to receive payment has been established; and
- (e) profit on disposal of investment property, when the legally binding sales contract is signed and exchanged and the transaction becomes unconditional.





# Notes to Financial Statements

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## 5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 3 to the financial statements. The SSAP requires that segment information is presented by way of business and geographical segments.

The Group has only one business segment, which is the property investment and management segment which provides property leasing and building management services and, therefore, no business segment information is presented.

No geographical segment information is presented as over 90% of the Group's segment revenue, results and assets are derived from operations carried out in Hong Kong. The jointly-controlled entity is not a reportable segment as defined by the SSAP. Further details of the location and principal activities of the jointly-controlled entity are in note 16 to the financial statements.

## 6. TURNOVER

Turnover represents rental and management fee income but excludes intra-group transactions.



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

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Costs incurred in the provision of rental and management services (Note)	2,925	3,024
Staff costs (including directors' remuneration):		
Salaries and allowances	6,482	6,981
Pension contributions	216	21
Total staff costs	<u>6,698</u>	<u>7,002</u>
Depreciation	132	130
Rental expenses in respect of land and buildings under operating leases	598	690
Auditors' remuneration	400	500
Deficit on revaluation of investment properties	22,405	–
Loss on deemed disposal of interest in an associate	77	–
Loss on disposal of a subsidiary	2,816	–
Provisions for doubtful debts	23,065	6,000
Unrealised holding loss on short term investments	193	–
Loss on disposal of fixed assets	–	7
	<u>          </u>	<u>          </u>
and crediting:		
Gross rental income	20,031	19,819
Less: Outgoings	<u>(455)</u>	<u>(540)</u>
Net rental income	<u>19,576</u>	<u>19,279</u>
Profit on disposal of listed investments	1,077	357
Profit on disposal of an investment property	142	1,000
Dividend income from listed investments	49	45
Interest income from bank deposits	458	412
Unrealised holding gain on short term investments	–	212
	<u>          </u>	<u>          </u>

Note: The amount included staff costs of HK\$1,975,000 (2000: HK\$1,993,000).

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## 8. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans repayable within five years	5,627	6,347
Interest on unpaid capital contribution to a jointly-controlled entity	—	3,180
	<u>5,627</u>	<u>9,527</u>

## 9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Executive directors:		
Fees	—	—
Salaries, housing allowances, bonuses and benefits in kind	1,466	1,860
	<u>1,466</u>	<u>1,860</u>
Non-executive director:		
Fees	66	66
Independent non-executive directors:		
Fees	165	165
	<u>1,697</u>	<u>2,091</u>



## 9. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	8	7
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>9</u>	<u>8</u>

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2000: two) director, details of whose remuneration are set out in note 9 to the financial statements. Further details of the remuneration of the remaining four (2000: three) non-director, highest paid employees are set out below:

	2001	2000
	HK\$'000	HK\$'000
Salaries, other emoluments and benefits in kind	2,005	1,728
Pension scheme contributions	48	3
	<u>2,053</u>	<u>1,731</u>

The remuneration of the above non-director, highest paid employees for the year fell within the band of nil to HK\$1,000,000.

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## 11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2001 HK\$'000	2000 HK\$'000
The Company and its subsidiaries:		
Hong Kong profits tax:		
Provision for the year	700	449
Overprovision in prior years	(207)	–
	493	449
Share of tax attributable to:		
Jointly-controlled entity	1,346	2,783
Associates	695	(245)
	2,534	2,987
Tax charge for the year	2,534	2,987

## 12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$34,480,000 (2000: HK\$6,305,000).

The Group's share of profit retained by the jointly-controlled entity for the year amounted to approximately HK\$1,053,000 (2000: HK\$8,769,000).

The Group's share of loss retained by the associates for the year amounted to HK\$28,573,000 (2000: profit of HK\$1,708,000).

## 13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders of HK\$72,782,000 (2000: profit of HK\$4,355,000) and 827,867,914 shares (2000: 827,867,914 shares) in issue during the year.



## 14. FIXED ASSETS

### Group

	<b>Investment properties</b>	<b>Land and buildings</b>	<b>Leasehold improve- ments</b>	<b>Other fixed assets</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:					
At beginning of year	286,717	3,143	101	3,598	293,559
Additions	–	–	–	94	94
Disposals	(500)	–	–	(169)	(669)
Disposal of a subsidiary	(16,017)	–	–	–	(16,017)
Deficit on revaluation	(29,900)	–	–	–	(29,900)
	<u>240,300</u>	<u>3,143</u>	<u>101</u>	<u>3,523</u>	<u>247,067</u>
At 31 December 2001	<u>240,300</u>	<u>3,143</u>	<u>101</u>	<u>3,523</u>	<u>247,067</u>
Comprising:					
At cost	–	3,143	101	3,523	6,767
At 2001 valuation	<u>240,300</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>240,300</u>
	<u>240,300</u>	<u>3,143</u>	<u>101</u>	<u>3,523</u>	<u>247,067</u>
Accumulated depreciation:					
At beginning of year	–	383	101	3,483	3,967
Provided during the year	–	56	–	76	132
Disposals	–	–	–	(169)	(169)
	<u>–</u>	<u>439</u>	<u>101</u>	<u>3,390</u>	<u>3,930</u>
At 31 December 2001	<u>–</u>	<u>439</u>	<u>101</u>	<u>3,390</u>	<u>3,930</u>
Net book value:					
At 31 December 2001	<u>240,300</u>	<u>2,704</u>	<u>–</u>	<u>133</u>	<u>243,137</u>
At 31 December 2000	<u>286,717</u>	<u>2,760</u>	<u>–</u>	<u>115</u>	<u>289,592</u>

The Group's land and buildings held at cost at 31 December 2001 are situated in Hong Kong and are held under long term leases.

The Group's investment properties are situated in Hong Kong and were revalued at 31 December 2001 by AA Property Services Limited, an independent professionally qualified valuer, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 27 to the financial statements.

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## 14. FIXED ASSETS (continued)

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

	HK\$'000
Long term leases	91,800
Medium term leases	<u>148,500</u>
	<u><u>240,300</u></u>

At the balance sheet date, certain of the Group's investment properties and land and buildings with an aggregate carrying value of approximately HK\$225,504,000 (2000: HK\$253,000,000) were pledged to a bank to secure the bank loan as set out in note 21 to the financial statements.

Further details of the Group's major properties are set out on pages 54 to 55 of the annual report.

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	231,154	231,154
Due from subsidiaries	407,177	466,086
Due to subsidiaries	<u>(27,794)</u>	<u>(23,986)</u>
	<u><u>610,537</u></u>	<u><u>673,254</u></u>

The balances with the subsidiaries are unsecured, not repayable within one year and interest-free, except for the amount due from subsidiaries of HK\$13,558,000 which is repayable on demand and bears interest at 3% per annum.



## 15. INTERESTS IN SUBSIDIARIES (continued)

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

Name of company	Place of incorporation/ operations	Nominal value of issued share capital*	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Dunley Developments Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Ecko Limited	Hong Kong	HK\$2	100%	100%	Property management
Eldex Investment Company Limited	Hong Kong	HK\$541,000 (ordinary) HK\$1,459,000 (non-voting deferred)	100%	100%	Property investment
Grand Award Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Grand Park Investment Limited	Hong Kong	HK\$2	100%	100%	Property investment
Grand Phoenix Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Jeckman Holdings Limited	British Virgin Islands	US\$16	100%	100%	Investment holding
Linksky Limited	Hong Kong	HK\$2	100%	100%	Property holding
Long Cosmos Investment Limited	Hong Kong	HK\$2	100%	100%	Provision of management services



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## 15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operations	Nominal value of issued share capital*	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Lyre Terrace Management Limited	Hong Kong	HK\$1,000,000	100%	100%	Investment holding and property investment
Newcorp Management Limited**	Hong Kong	HK\$2	—	100%	Property investment
On Hing Investment Company, Limited	Hong Kong	HK\$1,000 (ordinary) HK\$2,000,000 (non-voting deferred)	100%	100%	Property investment
SCG Financial Investment Limited	British Virgin Islands	US\$1,000	100%	100%	Investment holding
SCG Investment (B.V.I.) Limited***	British Virgin Islands	HK\$100,000	100%	100%	Investment holding
SCG Leasing Corporation Limited	Hong Kong	HK\$2	100%	100%	Property investment
Strenbeeck Limited	British Virgin Islands/ Hong Kong	HK\$147,000,008	100%	100%	Property investment



## 15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operations	Nominal value of issued share capital*	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Tin Fung Investment Company, Limited	Hong Kong	HK\$975,000 (ordinary) HK\$210,000 (non-voting deferred)	100%	100%	Property investment
Upper Nice Assets Ltd.	British Virgin Islands	US\$1	100%	100%	Investment holding

\* All issued share capital is ordinary unless otherwise stated.

\*\* During the year, the Group disposed of a wholly-owned subsidiary, Newcorp Management Limited, to an independent third party of the Group at a consideration of HK\$11,209,000. This resulted in a loss on disposal of a subsidiary of approximately HK\$2,816,000.

\*\*\* Except for SCG Investment (B.V.I.) Limited, all of the above subsidiaries are indirectly held by the Company.

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



## Notes to Financial Statements

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## 16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	2001 HK\$'000	Group 2000 HK\$'000
Unlisted investment: Cost plus share of post-acquisition profit of a jointly-controlled entity	<u>236,871</u>	<u>235,882</u>

Particulars of the jointly-controlled entity at the balance sheet date are as follows:

Name of entity	Business structure	Place of incorporation/ operations	Percentage of			Principal activities
			Ownership interest	Profit/loss sharing	Voting power	
Beijing Dongzhimen International Apartment Co., Ltd. ("Beijing Dongzhimen")	Corporate	People's Republic of China ("PRC")	44%*	44%	43%**	Property holding and provision of residential serviced apartments

\* Held through Grand Award Limited, a subsidiary.

\*\* The Group has 3 out of 7 votes on the board of directors of Beijing Dongzhimen.

Beijing Dongzhimen is a sino-foreign equity joint venture which was established in the PRC on 18 December 1986 with a tenure of 14 years and 8 months to 17 August 2001 (the "initial JV term"). The extension of the initial JV term for a further period of 15 years from the date of expiry of the initial JV term to 17 August 2016 has been approved by the relevant authorities.

Beijing Dongzhimen holds the land use rights for the land on which the East Lake Villas are presently located until the expiry of the initial JV term. At the balance sheet date, Beijing Dongzhimen was in the process of applying for an extension of 40 years for the use of the land following the expiry of the initial JV term.



## 16. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

Shougang Holding (Hong Kong) Limited ("Shougang HK"), the controlling shareholder of the Company's ultimate holding company and a fellow subsidiary of one of the original joint venture partners, has provided an irrevocable undertaking to the Group to the effect that, should the extension of 40 years not be approved by the Beijing Administration for Land and Property, the Group will have the right to require Shougang HK to acquire from the Group the entire issued share capital of Grand Award Limited at an amount equal to the consideration paid by the Group for the acquisition of Beijing Dongzhimen, together with any further capital or loan which Grand Award Limited may have contributed or advanced to Beijing Dongzhimen, plus interest thereon calculated at market rates (the "Put Option"). In connection with Shougang HK's grant of the Put Option, the Group paid Shougang HK a sum of HK\$100 as consideration.

A summary of the results and the net tangible assets as at the balance sheet date of Beijing Dongzhimen is set out below:

### (a) Results

	2001 HK\$'000	2000 HK\$'000
Turnover	<u>81,186</u>	<u>79,244</u>
Profit before tax	5,453	26,255
Tax	<u>(3,060)</u>	<u>(6,325)</u>
Profit after tax	<u>2,393</u>	<u>19,930</u>

### (b) Net tangible assets

	2001 HK\$'000	2000 HK\$'000
Fixed assets	635,626	140,714
Construction in progress	12,583	359,719
Long term investment	603	1,206
Other deferred expenses	942	680
Current assets	73,728	81,172
Current liabilities	<u>(168,275)</u>	<u>(49,389)</u>
Non-current liabilities	<u>(18,838)</u>	-
	<u>536,369</u>	<u>534,102</u>

# Notes to Financial Statements

(31 DECEMBER 2001)

## 17. INTERESTS IN ASSOCIATES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	231,296	256,674
Loan to an associate	27,900	27,900
Due from an associate	3,589	4,070
	<u>262,785</u>	<u>288,644</u>
Less: Provisions for doubtful debts	(31,489)	(9,568)
	<u>231,296</u>	<u>279,076</u>
Associates include:		
Share of net assets of a Hong Kong listed company	<u>231,296</u>	<u>256,674</u>
Market value of listed shares	<u>92,912</u>	<u>109,636</u>

The loan of HK\$27,900,000 (2000: HK\$27,900,000) to an associate is unsecured, bears interest at 15% per annum and has no fixed terms of repayment.

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.



## 17. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates at the balance sheet date are as follows:

Name of company	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Shougang Concord Technology Holdings Limited*	Corporate	Hong Kong	46.30%**	46.55%**	Investment holding
Top Pearl International Development Limited	Corporate	British Virgin Islands/PRC	50%**	50%**	Property development

\* Listed on The Stock Exchange of Hong Kong Limited.

\*\* Held indirectly through subsidiaries.

The principal activities of the material associate of the Group, Shougang Concord Technology Holdings Limited and its subsidiaries, are the manufacture and sale of telephone cords and accessories, power cords, adaptors and electronic products, printed circuit boards, high precision components for computers and the provision of freight forwarding and delivery services.

# Notes to Financial Statements

(31 DECEMBER 2001)

## 17. INTERESTS IN ASSOCIATES (continued)

A summary of the results and the net tangible assets as at the balance sheet date of Shougang Concord Technology Holdings Limited is set out below:

### (a) Results

	2001 HK\$'000	2000 HK\$'000
Turnover	<u>516,310</u>	<u>686,604</u>
Profit/(loss) from operating activities	(42,892)	23,174
Finance costs	(4,230)	(6,559)
Loss on disposal of a subsidiary	(19,620)	–
Provision for impairment in value of interest in a jointly-controlled entity	(2,000)	(51,491)
Share of profits and losses of jointly-controlled entities	<u>10,301</u>	<u>18,063</u>
Loss before tax	(58,441)	(16,813)
Tax	<u>(1,502)</u>	<u>527</u>
Loss before minority interests	(59,943)	(16,286)
Minority interests	<u>(1,742)</u>	<u>(6,499)</u>
Loss attributable to shareholders	<u><u>(61,685)</u></u>	<u><u>(22,785)</u></u>

### (b) Net tangible assets

	2001 HK\$'000	2000 HK\$'000
Fixed assets	178,557	245,778
Interests in jointly-controlled entities	144,436	106,066
Other non-current assets	17,226	17,337
Current assets	274,926	386,892
Current liabilities	(105,613)	(164,713)
Other non-current liabilities	(233)	(233)
Minority interests	<u>(9,756)</u>	<u>(39,778)</u>
	<u><u>499,543</u></u>	<u><u>551,349</u></u>



## 18. SHORT TERM INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Listed equity investments in Hong Kong, at market value	<u>858</u>	<u>1,320</u>

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2001 HK\$'000	2000 HK\$'000
Rental receivable*	542	44
Loan receivable	–	2,083
Prepayments, deposits and other debtors	<u>1,875</u>	<u>2,440</u>
	<u>2,417</u>	<u>4,567</u>

\* Invoices are due when issued.

## 20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	79	69	16	27
Time deposits	<u>23,812</u>	<u>9,476</u>	<u>23,812</u>	<u>9,426</u>
	<u>23,891</u>	<u>9,545</u>	<u>23,828</u>	<u>9,453</u>



# Notes to Financial Statements

(31 DECEMBER 2001)

## 21. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group and Company	
	2001 HK\$'000	2000 HK\$'000
Bank loan repayable:		
Within one year	30,000	–
In the second year	30,000	30,000
In the third to fifth years, inclusive	40,000	70,000
	<u>100,000</u>	<u>100,000</u>
Portion classified as current liabilities	<u>(30,000)</u>	–
Long term portion	<u><u>70,000</u></u>	<u><u>100,000</u></u>

Certain of the Group's investment properties and land and buildings with an aggregate carrying value of approximately HK\$225,504,000 (2000: HK\$253,000,000) were pledged to a bank to secure the above bank loan.

## 22. DEFERRED TAX

At the balance sheet date, there were no significant potential deferred tax liabilities for which provision has not been made.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The principal component of the Group's deferred tax asset not recognised is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Tax losses carried forward	<u><u>6,774</u></u>	<u><u>7,717</u></u>



## 23. SHARE CAPITAL

### Shares

	Company	
	2001 HK\$'000	2000 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:		
827,867,914 ordinary shares of HK\$0.01 each	<u>8,279</u>	<u>8,279</u>

### Share options

The Company operates a share option scheme, further details of which are also set out under the heading "Share option scheme" in the Report of the Directors.

During the year, no options were granted, exercised, cancelled or lapsed. At the balance sheet date, the Company had no outstanding share options.



## Notes to Financial Statements

(31 DECEMBER 2001)

## 24. RESERVES

## Group

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Contributed surplus HK\$'000 (Note (a))	Capital reserve HK\$'000 (Note (b))	Exchange fluctuation reserve HK\$'000	Retained profits/ accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2000	192,744	18,191	364,866	85,677	481	42,496	704,455
Deficit on revaluation of investment properties	-	(8,204)	-	-	-	-	(8,204)
Share of movements in reserves of an associate	-	-	-	-	(1,117)	-	(1,117)
Exchange adjustment on translation of overseas jointly-controlled entity	-	-	-	-	657	-	657
Profit for the year	-	-	-	-	-	4,355	4,355
At 31 December 2000 and 1 January 2001	192,744	9,987	364,866	85,677	21	46,851	700,146
Realisation of revaluation reserve on disposal of an investment property	-	(500)	-	-	-	-	(500)
Realisation of revaluation reserve on disposal of a subsidiary	-	(1,992)	-	-	-	-	(1,992)
Deficit on revaluation of investment properties	-	(7,495)	-	-	-	-	(7,495)
Share of movements in reserves of an associate	-	-	-	-	3,732	-	3,732
Deemed disposal of interest of an associate	-	-	-	(460)	-	-	(460)
Exchange adjustment on translation of overseas jointly-controlled entity	-	-	-	-	(64)	-	(64)
Loss for the year	-	-	-	-	-	(72,782)	(72,782)
At 31 December 2001	<u>192,744</u>	<u>-</u>	<u>364,866</u>	<u>85,217</u>	<u>3,689</u>	<u>(25,931)</u>	<u>620,585</u>
Reserves retained by:							
Company and subsidiaries	192,744	-	364,866	85,217	-	(19,948)	622,879
Jointly-controlled entity	-	-	-	-	1,074	14,855	15,929
Associates	-	-	-	-	2,615	(20,838)	(18,223)
At 31 December 2001	<u>192,744</u>	<u>-</u>	<u>364,866</u>	<u>85,217</u>	<u>3,689</u>	<u>(25,931)</u>	<u>620,585</u>
Company and subsidiaries	192,744	9,987	364,866	85,677	-	25,314	678,588
Jointly-controlled entity	-	-	-	-	1,138	13,802	14,940
Associates	-	-	-	-	(1,117)	7,735	6,618
At 31 December 2000	<u>192,744</u>	<u>9,987</u>	<u>364,866</u>	<u>85,677</u>	<u>21</u>	<u>46,851</u>	<u>700,146</u>



## 24. RESERVES (continued)

### Company

	Share premium account HK\$'000	Contributed surplus HK\$'000 (Note (a))	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2000	192,744	362,731	23,901	579,376
Loss for the year	—	—	(6,305)	(6,305)
At 31 December 2000 and 1 January 2001	192,744	362,731	17,596	573,071
Loss for the year	—	—	(34,480)	(34,480)
At 31 December 2001	<u>192,744</u>	<u>362,731</u>	<u>(16,884)</u>	<u>538,591</u>

#### Notes:

- (a) The Group's contributed surplus represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1991 over the nominal value of the Company's shares issued in exchange therefor.

The Company's contributed surplus was derived from the same reorganisation in 1991 and represented the excess of the fair value of the shares of the subsidiaries acquired over the nominal values of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

- (b) The amount of negative goodwill remaining in reserves arising from the acquisition of an associate is HK\$85,217,000 as at 31 December 2001. The amount of negative goodwill is stated at its cost of HK\$85,677,000, less loss on deemed disposal of interest of the associate of HK\$460,000 written off against the capital reserve in the year.

# Notes to Financial Statements

(31 DECEMBER, 2001)

## 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities:

	2001 HK\$'000	2000 HK\$'000
Profit/(loss) from operating activities	(39,142)	3,854
Interest income from bank deposits	(458)	(412)
Dividend income from listed investments	(49)	(45)
Depreciation	132	130
Profit on disposal of listed investments	(1,077)	(357)
Profit on disposal of an investment property	(142)	(1,000)
Loss on disposal of a subsidiary	2,816	-
Loss on disposal of fixed assets	-	7
Provisions/(write-back of provisions) for impairment in values of short term investments	193	(212)
Loss on deemed disposal of interest in an associate	77	-
Provisions for doubtful debts	23,065	6,000
Deficit on revaluation of investment properties	22,405	-
Decrease in amount due to the jointly-controlled entity	-	(2,270)
Decrease/(increase) in amount due from an associate	481	(13)
Decrease in prepayments, deposits and other receivables	1,019	5,841
Increase/(decrease) in creditors and accruals	(2,016)	2,467
Increase/(decrease) in rental and management fee deposits received	143	(115)
Net cash inflow from operating activities	<u>7,447</u>	<u>13,875</u>

(b) Analysis of changes in financing during the year:

	<b>Bank loan</b> HK\$'000
At 1 January 2000	65,500
Cash inflow from financing activities, net	<u>34,500</u>
At 31 December 2000 and at 31 December 2001	<u>100,000</u>



## 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(Continued)

(c) Disposal of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Fixed assets	16,017	–
Realisation of revaluation reserve upon disposal	(1,992)	–
	<u>14,025</u>	–
Loss on disposal of a subsidiary	<u>(2,816)</u>	–
	<u>11,209</u>	–
Satisfied by:		
Cash	<u>11,209</u>	–

## 26. COMMITMENTS

The Group's share of the jointly-controlled entity's capital commitments authorised, but not contracted for amounted to approximately HK\$64,237,000 (2000: HK\$14,098,000) and capital commitments contracted, but not provided for amounted to approximately HK\$894,000 (2000: HK\$54,903,000).

The Company had no significant commitments as at 31 December 2001 (2000: Nil).

## 27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 3 years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

# Notes to Financial Statements

(31 DECEMBER 2001)

## 27. OPERATING LEASE ARRANGEMENTS (Continued)

### (a) As lessor (continued)

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	7,883	11,049
In the second to fifth years, inclusive	1,475	3,656
	<u>9,358</u>	<u>14,705</u>

### (b) As lessee

The Group leases its office under an operating lease arrangement. The lease for properties is negotiated for term within 1 year. At 31 December 2001, the Group and the Company had no operating lease commitments (2000: HK\$624,000) under non-cancellable operating leases.

## 28. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had no significant contingent liabilities.

## 29. RELATED PARTY TRANSACTIONS

In addition to those set out in notes 16 and 17 to the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group	
		2001 HK\$'000	2000 HK\$'000
Management and service fees charged by Shougang Concord International Enterprises Company Limited	(a)	<u>960</u>	<u>960</u>
Interest expenses charged by Beijing Dongzhimen	(b)	<u>–</u>	<u>3,180</u>
Rental expenses charged by Wonderfine Development Limited	(c)	<u>598</u>	<u>653</u>
Consultancy expenses charged by Shougang HK	(d)	<u>960</u>	<u>840</u>



## 29. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (a) Pursuant to a management service agreement entered into between the Company and its ultimate holding company, Shougang Concord International Enterprises Company Limited, a monthly management fee of HK\$80,000 was charged in connection with the agreement.
- (b) The interest expenses charged last year by Beijing Dongzhimen, a jointly-controlled entity, arose from the unpaid capital contribution by the Group under the subscription agreement between the Group and the original joint venture partners at an interest rate of 6% per annum.
- (c) The rental expenses were charged in accordance with the agreement between the Group and Wonderfine Development Limited, a subsidiary of Shougang HK, the controlling shareholder of the Company's ultimate holding company.
- (d) The consultancy expenses charged by Shougang HK were charged in accordance with the agreement between the Group and Shougang HK.

## 30. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company is Shougang Concord International Enterprises Company Limited, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

## 31. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 11 April 2002, the ultimate holding company, Shougang Concord International Enterprises Company Limited, entered into a conditional agreement (the "Agreement") with a wholly-owned subsidiary of Shougang HK and a wholly-owned subsidiary of Cheung Kong (Holdings) Limited to sell its entire interest in the Company. Shougang HK will then become the ultimate holding company of the Company immediate after the completion of the transaction. Up to the issuance date of these financial statements, the conditions as specified in the Agreement have not yet been fulfilled, and accordingly, the said transaction has not been completed.

## 32. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of SSAP 14 (Revised) during the current year, the disclosures for the operating lease arrangements have been revised to comply with the new requirements.

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2002.