

# Notes to the Financial Statements

For the Year Ended 31st December, 2001

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## 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 (the “Hong Kong Stock Exchange”).

On 22nd October, 2001, the former associate, Magnificent Estates Limited (“Magnificent”), has become a subsidiary of the Company following the acquisition by the Group of an additional 1.98% interest in Magnificent through the conversion by the Group of convertible bonds issued by Magnificent. Magnificent is a public limited company incorporated in Hong Kong and its shares are listed on the Hong Kong Stock Exchange. At 31st December, 2001, the shares in Magnificent held by the Company, directly and indirectly, represent approximately 51.01% of Magnificent’s issued share capital.

The Group is engaged in hotel investment and operation, property investment, property development and trading, securities investment and trading, development of internet portal sites and treasury operations.

The Company’s holding company is Shun Ho Resources Holdings Limited (“Shun Ho Resources”), a public limited company incorporated in Hong Kong whose shares are listed on the Hong Kong Stock Exchange. The directors consider the Company’s ultimate holding company to be Shun Ho Group Limited, a private limited company incorporated in the Republic of Liberia.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. Adoption of these Standards 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 Standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

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

### Goodwill

In adopting SSAP 30 “Business Combinations”, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the 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. Negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions on or after 1st January, 2001 is capitalised and is amortised over its estimated useful life. Negative goodwill arising on acquisitions on or 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.

The adoption of this revised accounting policy does not have any material impact on the operating results of the Group for the year.

### Leases

The adoption of SSAP 14 (Revised) “Leases” has not resulted in any significant changes to the accounting treatment adopted for leases, accordingly no prior period adjustment has been required. Disclosure for the Group’s leasing arrangements has been modified so as to comply with the new requirements of SSAP 14 (Revised).

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

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### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES (Continued)

#### Segment reporting

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

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 the balance sheet date.

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, as appropriate.

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

Prior to becoming a subsidiary of the Company, the results of Magnificent were accounted for by the Group under the equity method based on its published financial information made up to 30th September. During the year, Magnificent has changed its accounting date to 31st December in order to be coterminous with that of the Company. Accordingly the consolidated financial statements incorporate the consolidated results of Magnificent for the period from 1st October, 2000 to 22nd October 2001 on an equity basis and the subsequent period to 31st December, 2001 on a consolidation basis. The comparative amounts shown in the income statement, statement of recognised gains and losses, cash flow statement and related notes include the results of Magnificent for a full year period made up to 30th September, 2000 on an equity basis and therefore may not be comparable with amounts shown for the current year.

On consolidation of Magnificent, the shares in the Company held by a subsidiary of Magnificent have been accounted for using the treasury stock method whereby consolidated shareholders' equity is reduced by the carrying value of the shares in the Company held by the said subsidiary at the date when Magnificent became a subsidiary of the Company. The convertible bonds issued by Magnificent held by the Company, directly and indirectly, were regarded as intra-group indebtedness and have been eliminated on consolidation.

#### Goodwill/negative goodwill

Goodwill/negative goodwill arising on consolidation represents the excess/shortfall 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/negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves. Goodwill will be charged to the 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. Negative goodwill will be credited to the income statement at the time of disposal of the relevant subsidiary or associate.

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

For the Year Ended 31st December, 2001

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

#### **Goodwill/negative goodwill** *(Continued)*

Goodwill arising on acquisitions on or after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the 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. On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisitions on or 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 year 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.

#### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits or losses are eliminated to the extent of the Group's interest in the relevant associates except where unrealised losses provide evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in associates are stated at cost less any identified impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

#### **Investments in securities**

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

All securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

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

For the Year Ended 31st December, 2001

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

#### **Investment properties**

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

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

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

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

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

##### *Hotel property*

Hotel property is stated at its open market value based on an independent professional valuation at the balance sheet date. Any revaluation increase arising on the revaluation of the hotel property is credited to the hotel property revaluation reserve except that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of the hotel property is dealt with as an expense to the extent that it exceeds the balance on this reserve.

On disposal of hotel property, the balance on the hotel property revaluation reserve attributable to that property is transferred to retained profits.

It is the Group's practice to maintain its hotel property in a continual state of sound repair and to make improvements from time to time, accordingly the directors consider that depreciation is not necessary as the property maintains a residual value at least equal to its carrying value. Repairs and maintenance expenditures are charged to the income statement in the year in which they are incurred.

##### *Other property, plant and equipment*

Other property, plant and equipment are stated at cost or valuation less depreciation where appropriate. Properties reclassified from investment properties are stated at the carrying value at the time when the reclassification took place, less subsequent depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

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

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

No depreciation is provided on property under development. Hotel operating equipment included in furniture, fixtures and equipment is capitalised at historical cost and all subsequent replacements are expensed in the period in which they are incurred. Depreciation is provided to write off the cost or valuation of other property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	over the term of the lease
Buildings	2% per annum
Furniture, fixtures and equipment	20% – 33 1/3% per annum
Motor vehicles and vessels	20% per annum

#### Property under development

Property under development is stated at cost less any identified impairment loss. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy and other attributable expenses.

#### Inventories

Inventories, representing stocks of food, beverages and general stores, are stated at the lower of cost and net realisable value.

#### Properties for sale

Properties for sale are carried at the lower of cost and net realisable value. Cost includes purchase consideration and other attributable expenses. Net realisable value is determined by reference to management estimates based on prevailing marketing conditions.

#### Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases.

Rentals payable (receivable) under operating leases are charged (credited) to income statement on a straight line basis over their respective lease terms.

#### Convertible bonds

Convertible bonds are separately disclosed and regarded as a liability. The expenses incurred directly in connection with the issue of the bonds are deferred and are amortised over the period of the bonds so as to produce a constant periodic rate of charge on the carrying amount of the bonds.

#### Impairment

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

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

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

For the Year Ended 31st December, 2001

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

#### **Foreign currencies**

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

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

#### **Taxation**

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

#### **Capitalisation of borrowing costs**

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

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

#### **Internet infrastructure development**

All costs incurred in connection with the development of new websites/portals and enhancement of existing websites/portals are charged to the income statement in the period in which they are incurred.

#### **Revenue recognition**

Income from hotel operation is recognised when services are rendered.

Rentals receivable in respect of properties under operating leases are recognised and credited to the income statement on a straight line basis over the relevant lease term.

Sales of investments are recognised when the sale becomes unconditional.

Income from portal site operations is recognised when the relevant services are rendered.

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

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 4. TURNOVER

Turnover represents the aggregate of income from hotel operation, property rentals, interest and dividend income, and income from portal site operation, analysed as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Income from hotel operation	6,500,126	—
Property rentals	10,188,030	6,563,282
Interest income	6,766,324	10,894,564
Dividend income	687,788	—
Income from portal site operation	149,888	—
	<u>24,292,156</u>	<u>17,457,846</u>

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

The businesses based upon which the Group reports its primary segment information are as follows:

Hospitality services	-	hotel investment and operation
Property investment	-	property letting
Property development and trading	-	development and trading of properties
Securities investment and trading	-	investment in and trading of listed securities
Portal site operation	-	development and operation of internet portal sites

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below:

#### REVENUE AND RESULTS

Year ended 31st December, 2001

	Hospitality services HK\$	Property investment HK\$	Property development and trading HK\$	Securities investment and trading HK\$	Portal site operation HK\$	Consolidated HK\$
REVENUE						
External sales	<u>6,500,126</u>	<u>10,758,681</u>	<u>–</u>	<u>984,872</u>	<u>149,889</u>	<u>18,393,568</u>
RESULT						
Segment result	<u>2,216,013</u>	<u>9,868,148</u>	<u>–</u>	<u>2,783,848</u>	<u>(151,126)</u>	14,716,883
Interest and other income						6,959,127
Unallocated corporate expenses						<u>(5,242,348)</u>
Profit from operations						16,433,662
Finance costs						<u>(3,195,212)</u>
						<u>13,238,450</u>
Share of results of associates (Note)						
Segment results	2,958,608	13,957,688	–	(9,907,054)	–	7,009,242
Unallocated income less expenses						<u>(14,500,579)</u>
						<u>(7,491,337)</u>
Profit before taxation						5,747,113
Taxation						<u>(2,051,443)</u>
Profit before minority interests						3,695,670
Minority interests						<u>(2,974,560)</u>
Net profit for the year						<u>721,110</u>

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### BALANCE SHEET

At 31st December, 2001

	Hospitality services HK\$	Property investment HK\$	Property development and trading HK\$	Securities investment and trading HK\$	Portal site operation HK\$	Consolidated HK\$
<b>ASSETS</b>						
Segment assets						
Investment properties	–	700,600,000	–	–	–	700,600,000
Property, plant and equipment	483,420,327	81,002,965	–	–	344,743	564,768,035
Property under development	–	–	105,733,291	–	–	105,733,291
Interests in associates	–	97,127,058	–	–	–	97,127,058
Investments in securities	–	–	–	49,188,454	–	49,188,454
Properties for sale	–	–	70,652,730	–	–	70,652,730
Other segment assets	2,767,334	1,551,826	–	483,797	9,033	4,811,990
	486,187,661	880,281,849	176,386,021	49,672,251	353,776	1,592,881,558
Unallocated corporate assets						81,535,373
Negative goodwill						(21,889,492)
Consolidated total assets						<u>1,652,527,439</u>
<b>LIABILITIES</b>						
Segment liabilities	2,814,826	7,721,672	170,487	8,368	–	10,715,353
Unallocated corporate liabilities						214,162,548
Consolidated total liabilities						<u>224,877,901</u>

#### OTHER INFORMATION

Year ended 31st December, 2001

	Hospitality services HK\$	Property investment HK\$	Portal site operation HK\$
Capital additions to property, plant and equipment	209,338	5,168,682	–
Depreciation and amortisation	<u>103,146</u>	<u>71,387</u>	<u>107,972</u>

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### REVENUE AND RESULTS

Year ended 31st December, 2000

	Hospitality services HK\$	Property investment HK\$	Property development and trading HK\$	Securities investment and trading HK\$	Portal site operation HK\$	Consolidated HK\$
<b>REVENUE</b>						
External sales	–	6,563,282	–	–	–	6,563,282
<b>RESULT</b>						
Segment result	–	6,254,477	–	–	(3,478,389)	2,776,088
Interest and other income						11,264,564
Unallocated corporate expenses						(3,803,124)
Profit from operations						10,237,528
Finance costs						(2,235,219)
						8,002,309
Share of results of associates (Note)						
Segment results	1,499,121	12,631,354	–	1,703,461	–	15,833,936
Unallocated income less expenses						(12,384,964)
						3,448,972
Profit before taxation						11,451,281
Taxation						(1,485,861)
Net profit for the year						9,965,420

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### BALANCE SHEET

At 31st December, 2000

	Hospitality services HK\$	Property investment HK\$	Property development and trading HK\$	Securities investment and trading HK\$	Portal site operation HK\$	Consolidated HK\$
<b>ASSETS</b>						
Segment assets						
Investment properties	-	266,500,000	-	-	-	266,500,000
Property, plant and equipment	-	162,361	-	-	452,714	615,075
Interests in associates (Note)						
Segment net assets	264,893,830	322,368,245	44,787,924	80,793,137	-	712,843,136
Unallocated net liabilities						(105,469,063)
Other segment assets	-	274,720	-	-	5,067	279,787
	264,893,830	589,305,326	44,787,924	80,793,137	457,781	874,768,935
Unallocated corporate assets						143,352,856
Consolidated total assets						<u>1,018,121,791</u>
<b>LIABILITIES</b>						
Segment liabilities	-	1,548,964	-	-	39,256	1,588,220
Unallocated corporate liabilities						58,450,119
Consolidated total liabilities						<u>60,038,339</u>

Note:

For segment reporting purposes, the Group's interest in Magnificent as at 31st December, 2000 and share of its results prior to Magnificent becoming a subsidiary of the Company have been allocated to business segments based on Magnificent's published financial information on a pro rata basis.

#### OTHER INFORMATION

Year ended 31st December, 2000

	Property investment HK\$	Portal site operation HK\$
Capital additions to property, plant and equipment	47,700	539,861
Depreciation and amortisation	<u>62,187</u>	<u>87,146</u>

#### Geographical segments

Substantially all of the Group's turnover and contribution for both years presented were derived from business operations carried out and located in Hong Kong. More than 90% of the Group's assets are located in Hong Kong. Accordingly, an analysis of turnover and contribution to profit by geographical market and location is not presented.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 6. GAIN ON INVESTMENTS IN SECURITIES

	THE GROUP	
	2001 HK\$	2000 HK\$
Unrealised holding gain on trading securities	1,936,976	–
Impairment loss on other securities	(138,000)	–
	<u>1,798,976</u>	<u>–</u>

### 7. PROFIT FROM OPERATIONS

	THE GROUP	
	2001 HK\$	2000 HK\$
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	601,000	254,000
Staff costs including directors' emoluments	7,897,790	2,462,452
Depreciation of property, plant and equipment	1,117,160	149,334
Repairs and maintenance	796,321	150,588
Rental income from investment properties, less outgoings of HK\$890,532 (2000: HK\$308,805)	(9,297,498)	(6,254,477)
Dividends from listed investments	(687,788)	–
Interest on debt securities	(297,083)	–
	<u>–</u>	<u>–</u>

### 8. FINANCE COSTS

	THE GROUP	
	2001 HK\$	2000 HK\$
Interest on:		
Bank loans and overdrafts	842,145	147,623
Other borrowings wholly repayable within five years	2,523,802	3,610,809
Convertible bonds	22,055	–
Bond issue expenses amortised	2,976	–
Exchange gains, net	–	(1,523,213)
	<u>3,390,978</u>	<u>2,235,219</u>
Less: amount capitalised on properties under development	(195,766)	–
	<u>3,195,212</u>	<u>2,235,219</u>

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	THE GROUP	
	2001 HK\$	2000 HK\$
(a) <b>Directors' emoluments</b>		
Directors' fees to independent non-executive directors	18,750	10,000
Other emoluments to executive directors		
Salaries and other benefits	1,337,601	596,431
Contributions to provident fund scheme	9,000	—
Total emoluments	<u>1,365,351</u>	<u>606,431</u>

The emoluments of the directors are individually below HK\$1,000,000.

In addition to the amounts disclosed above, the executive directors and the independent non-executive directors respectively received management remunerations totalling HK\$2,770,479 (2000: HK\$5,180,878) and directors' fees totalling HK\$37,500 (2000: HK\$80,000) from a former associate.

### (b) Employees' emoluments

Of the five individuals in the Group with the highest emoluments, three (2000: three) were directors of the Company, whose remunerations are included above. The emoluments of the remaining two (2000: two) individuals, whose remunerations are individually below HK\$1,000,000, are as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Salaries and other benefits	<u>419,773</u>	<u>254,000</u>

### 10. TAXATION

	THE GROUP	
	2001 HK\$	2000 HK\$
Hong Kong Profits Tax charge (credit):		
Company and subsidiaries	1,584,195	1,771,199
Associates	467,248	(285,338)
	<u>2,051,443</u>	<u>1,485,861</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit for the year.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 11. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year, a profit of HK\$1,671,090 (2000: HK\$12,131,989) has been dealt with in the financial statements of the Company.

### 12. EARNINGS PER SHARE

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

	<b>2001</b> <i>HK\$</i>	2000 <i>HK\$</i>
Earnings for the purpose of basic earnings per share	<b>721,110</b>	9,965,420
Effect of dilutive potential ordinary shares of Magnificent in respect of convertible bonds	<u>(398,343)</u>	<u>N/A</u>
Earnings for the purpose of diluted earnings per share	<u><b>322,767</b></u>	<u>N/A</u>
	<b>2001</b> <i>Number of shares</i>	2000 <i>Number of shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>520,787,547</b>	537,076,602
Effect of dilutive potential ordinary shares in respect of convertible bonds	<u>(36,937,154)</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>483,850,393</b></u>	<u>N/A</u>

The weighted average number of shares adopted for the calculation of the earnings per share for the current year has been arrived at after eliminating the shares in the Company held by a subsidiary.

The computation of diluted earnings per share for both years presented has not assumed the exercise of the outstanding warrants and share options issued or granted by the Company and its listed subsidiary, Magnificent, as the exercise of these warrants and share options would be anti-dilutive.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 13. INVESTMENT PROPERTIES

	THE GROUP	
	2001 HK\$	2000 HK\$
VALUATION		
At 1st January	266,500,000	266,500,000
Carried by subsidiaries acquired	500,600,000	–
Reclassified to property, plant and equipment	(66,500,000)	–
	<u>700,600,000</u>	<u>266,500,000</u>
At 31st December	<u>700,600,000</u>	<u>266,500,000</u>

An analysis of the investment properties is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Land and buildings in Hong Kong on land held on:		
Long lease	390,000,000	66,500,000
Medium-term lease	310,600,000	200,000,000
	<u>700,600,000</u>	<u>266,500,000</u>

The investment properties of the Group were revalued on 31st December, 2001 on an open market value basis in their existing state by Dudley Surveyors Limited, an independent firm of property valuers.

The Group's investment properties with an aggregate carrying value of approximately HK\$656 million (2000: HK\$266 million) were rented out under operating leases at the balance sheet date.

### 14. PROPERTY, PLANT AND EQUIPMENT

	Hotel property HK\$	Other completed property HK\$	Property under development HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles and vessels HK\$	Total HK\$
THE GROUP						
COST OR VALUATION						
At 1st January, 2001	–	–	–	1,499,784	–	1,499,784
Carried by subsidiaries acquired	480,000,000	–	75,582,504	3,289,743	2,991,780	561,864,027
Additions	–	–	5,124,702	43,326	209,993	5,378,021
Reclassification	–	66,500,000	–	–	–	66,500,000
Disposals	–	–	–	(2,490)	–	(2,490)
	<u>480,000,000</u>	<u>66,500,000</u>	<u>80,707,206</u>	<u>4,830,363</u>	<u>3,201,773</u>	<u>635,239,342</u>
At 31st December, 2001	<u>480,000,000</u>	<u>66,500,000</u>	<u>80,707,206</u>	<u>4,830,363</u>	<u>3,201,773</u>	<u>635,239,342</u>
DEPRECIATION						
At 1st January, 2001	–	–	–	884,709	–	884,709
Provided for the year	–	147,671	–	260,057	709,432	1,117,160
Eliminated on disposals	–	–	–	(291)	–	(291)
	<u>–</u>	<u>147,671</u>	<u>–</u>	<u>1,144,475</u>	<u>709,432</u>	<u>2,001,578</u>
At 31st December, 2001	<u>–</u>	<u>147,671</u>	<u>–</u>	<u>1,144,475</u>	<u>709,432</u>	<u>2,001,578</u>
NET BOOK VALUES						
At 31st December, 2001	<u>480,000,000</u>	<u>66,352,329</u>	<u>80,707,206</u>	<u>3,685,888</u>	<u>2,492,341</u>	<u>633,237,764</u>
At 31st December, 2000	<u>–</u>	<u>–</u>	<u>–</u>	<u>615,075</u>	<u>–</u>	<u>615,075</u>

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's hotel property known as the Ramada Hotel Kowloon, is situated in Hong Kong on medium-term lease and is carried at its open market value, on an existing use basis, at 31st December, 2001 as valued by Dudley Surveyors Limited, an independent firm of property valuers.

Had the Group's hotel property not been revalued, it would have been included in these financial statements at the historical cost of approximately HK\$480,000,000 (2000: Nil).

The Group's other completed property, which is located in Hong Kong on long lease, is carried at its open market value at 31st December, 2000 as valued by Dudley Surveyors Limited, an independent firm of property valuer, less subsequent depreciation.

Other property, plant and equipment are carried at cost less depreciation.

Included in property under development, which is situated in the People's Republic of China on medium-term lease, is interest expense of HK\$195,766 (2000: Nil) capitalised at Hong Kong Inter-bank Offer Rate plus a specified margin.

### 15. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2001 HK\$	2000 HK\$
Property under development		
Carried by subsidiaries acquired during the year	104,651,783	—
Additions during the year at cost	1,081,508	—
	<u>105,733,291</u>	<u>—</u>
At end of the year	<u>105,733,291</u>	<u>—</u>

### 16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$	2000 HK\$
At cost		
Shares listed in Hong Kong	310,046,042	—
Unlisted shares	2,250,884	2,250,884
	<u>312,296,926</u>	<u>2,250,884</u>
Amounts due from subsidiaries less allowance	239,006,908	151,282,022
Convertible bonds issued by a subsidiary (note 24)	85,009,616	—
	<u>636,313,450</u>	<u>153,532,906</u>
Market value of listed shares	<u>59,872,037</u>	<u>—</u>

The amounts due from subsidiaries are unsecured with no fixed repayment terms. In the opinion of the directors, repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as a non-current asset.

Particulars regarding the subsidiaries at 31st December, 2001 are set out in note 33.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 17. INTERESTS IN ASSOCIATES

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$</b>	<b>HK\$</b>
Share of net assets (deficits) of associates		
Listed	–	559,295,360
Unlisted	<b>5,399,639</b>	(103,035)
	<b>5,399,639</b>	559,192,325
Amounts due from associates ( <i>note 32 (c)</i> )	<b>91,635,735</b>	48,181,748
	<b>97,035,374</b>	607,374,073
Market value of listed shares	–	79,031,481
	<b>–</b>	<b>79,031,481</b>
	<b>THE COMPANY</b>	
	<b>2001</b>	2000
	<b>HK\$</b>	<b>HK\$</b>
At cost		
Shares listed in Hong Kong	–	302,246,042
Unlisted shares	<b>3</b>	4
	<b>3</b>	302,246,046
Amounts due from associates	–	48,181,748
	<b>3</b>	350,427,794
Market value of listed shares	–	62,694,883
	<b>–</b>	<b>62,694,883</b>

Included in the listed investments of the Group and the Company at 31st December, 2001 were approximately 51.01% (2000: 49%) and 38.9% (2000: 38.9%) interest in the issued ordinary share capital of Magnificent respectively.

During the year, Magnificent has become a subsidiary of the Company and has been consolidated. The Company's investment in Magnificent has been reclassified as an investment in subsidiary.

Particulars regarding the associates at 31st December, 2001 are as follows:

Name of associate	Place of incorporation and operation	Proportion of nominal value of issued ordinary capital held %	Principal activities
Lucky Country Development Limited	Hong Kong	25.5	Property investment
Royle Corporation Limited	Hong Kong	50	Property investment

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 18. INVESTMENTS IN SECURITIES

	Trading securities (current)		Other securities (non-current)	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
THE GROUP				
Listed securities at market value				
Equity securities listed				
In Hong Kong	8,339,301	–	18,353,553	–
Outside Hong Kong	–	–	1,459,000	–
Debt securities listed outside Hong Kong	20,256,600	–	–	–
Unlisted investments	–	–	780,000	–
	<u>28,595,901</u>	<u>–</u>	<u>20,592,553</u>	<u>–</u>

The Group's non-current equity securities listed in Hong Kong include approximately 20.57% (2000: Nil) interests in the Company's holding company, Shun Ho Resources. The activities of Shun Ho Resources and its subsidiaries are hotel investment and operation, property investment, property development and trading, securities investment and trading, development of internet portal sites and treasury operations.

In accordance with the Companies Ordinance, members of the Group who are shareholders of Shun Ho Resources have no right to vote at its meetings. Accordingly, the directors are of the opinion that the Group is not in a position to exercise significant influence over Shun Ho Resources, the results of Shun Ho Resources have therefore not been accounted for on an equity basis.

### 19. NEGATIVE GOODWILL

	THE GROUP	
	2001 HK\$	2000 HK\$
Negative goodwill arising on consolidation of subsidiaries during the year and balance at the end of the year (note 27)	<u>21,889,492</u>	<u>–</u>

The negative goodwill, which arose from the acquisition of additional interest in Magnificent on 22nd October, 2001, will be recognised to income statement from that date on a straight line basis by reference to the underlying assets of Magnificent. No negative goodwill has been recognised to the income statement for the year as the amount involved is insignificant.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 20. TRADE AND OTHER RECEIVABLES

Except for an average credit period of 30 to 60 days granted to travel agencies and customers of the hotel and property tenants, the Group does not allow any credit period to its customers.

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

	THE GROUP	
	2001 HK\$	2000 HK\$
0 – 30 days	2,494,462	192,380
31 – 60 days	553,944	39,726
Over 60 days	648,953	10,819
	<u>3,697,359</u>	<u>242,925</u>

### 21. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2001 HK\$	2000 HK\$
0 – 30 days	2,624,348	272,388
31 – 60 days	295,583	–
Over 60 days	3,828,086	1,185,157
	<u>6,748,017</u>	<u>1,457,545</u>

### 22. SHARE CAPITAL

	THE GROUP AND THE COMPANY			
	Number of shares		Nominal value	
	2001	2000	2001 HK\$	2000 HK\$
Ordinary shares of HK\$0.50 each				
Authorised				
At the beginning and end of the year	<u>640,000,000</u>	<u>640,000,000</u>	<u>320,000,000</u>	<u>320,000,000</u>
Issued and fully paid				
At the beginning and end of the year	<u>537,076,602</u>	<u>537,076,602</u>	<u>268,538,301</u>	<u>268,538,301</u>

There was no change in the share capital of the Company for both years presented.

At 31st December, 2001, 83,739,510 (2000: 79,427,510) issued shares of the Company with an aggregate nominal value of HK\$41,869,755 were held by a subsidiary of Magnificent. In accordance with the Companies Ordinance, members of the Group who are shareholders of the Company have no right to vote at meetings of the Company.

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

For the Year Ended 31st December, 2001

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### 22. SHARE CAPITAL *(Continued)*

#### Share options

(a) *The Company*

No options were granted, exercised, cancelled or lapsed during either of the financial years presented. The share options previously granted to a director to subscribe for 5,374,691 ordinary shares of the Company at a subscription price of HK\$1.11 per share exercisable during the period from 20th October, 1993 to 19th October, 2003 remained outstanding at the end of the year.

(b) *Magnificent*

Other than the share options to subscribe for 12,000,000 ordinary shares in Magnificent previously granted which had lapsed during the year ended 31st December, 2000, no options were granted, exercised, cancelled or lapsed during either of the financial years presented. The share options outstanding previously granted to a director to subscribe for 43,799,524 ordinary shares of Magnificent at the subscription price of HK\$0.2 per share exercisable during the period from 30th June, 1994 to 29th June, 2004 remaining outstanding at the end of the year.

#### Warrants

In connection with the issue of the convertible bonds during the year, Magnificent issued a total of 644,713,356 units of warrants. The warrants, which carry an aggregate subscription right of HK\$22,564,967, entitle the holders thereof to subscribe for shares in Magnificent at the subscription price of HK\$0.035 per share, subject to adjustment, during the three months period commencing from 14th November, 2002. At 31st December, 2001, 644,713,356 units of warrants remained outstanding, of which approximately 629,361,000 units were held by the Group.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 23. RESERVES

	Share premium HK\$	Capital reserve HK\$	Investment property revaluation reserve HK\$	Other property revaluation reserve HK\$	Securities revaluation reserve HK\$	General reserve HK\$	Negative goodwill HK\$	Retained profits HK\$	Total HK\$
<b>THE GROUP</b>									
At 1st January, 2000	118,799,739	4,180,781	211,915,471	88,126,504	(13,071,572)	263,000	10,825,738	265,517,162	686,556,823
Share of reserve movements of associates	-	-	-	(1,168,557)	(5,808,535)	-	-	-	(6,977,092)
Net profit for the year	-	-	-	-	-	-	-	9,965,420	9,965,420
At 31st December, 2000	118,799,739	4,180,781	211,915,471	86,957,947	(18,880,107)	263,000	10,825,738	275,482,582	689,545,151
Share of reserve movements of associates	-	-	(5,193,609)	(27,456,800)	(6,303,815)	-	-	-	(38,954,224)
Increase on revaluation of other securities	-	-	-	-	402,979	-	-	-	402,979
Net profit for the year	-	-	-	-	-	-	-	721,110	721,110
Own shares held by a subsidiary	-	-	-	-	-	-	-	-	(15,073,112)
At 31st December, 2001	<u>118,799,739</u>	<u>4,180,781</u>	<u>206,721,862</u>	<u>59,501,147</u>	<u>(24,780,943)</u>	<u>263,000</u>	<u>10,825,738</u>	<u>276,203,692</u>	<u>636,641,904</u>

The Group's share of post-acquisition reserves of the associates included in reserves is analysed below:

At 31st December, 2001	<u>-</u>	<u>-</u>	<u>1,085,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,757,475</u>	<u>2,842,995</u>
At 31st December, 2000	<u>-</u>	<u>-</u>	<u>38,726,541</u>	<u>86,957,947</u>	<u>(18,880,107)</u>	<u>-</u>	<u>(392,598)</u>	<u>105,812,457</u>	<u>212,224,240</u>

### THE COMPANY

At 1st January, 2000	118,799,739	4,180,781	-	-	-	-	-	191,765,361	314,745,881
Net profit for the year	-	-	-	-	-	-	-	12,131,989	12,131,989
At 31st December, 2000	118,799,739	4,180,781	-	-	-	-	-	203,897,350	326,877,870
Net profit for the year	-	-	-	-	-	-	-	1,671,090	1,671,090
At 31st December, 2001	<u>118,799,739</u>	<u>4,180,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205,568,440</u>	<u>328,548,960</u>

*Note:* The property revaluation reserves are not distributable to shareholders until they are realised. The Company's reserves available for distribution to shareholders at 31st December, 2001 represent retained profits of HK\$205,568,440 (2000: HK\$203,897,350).

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 24. CONVERTIBLE BONDS

	THE GROUP	
	2001	2000
	HK\$	HK\$
Unsecured convertible bonds	2,299,988	–
Less: Unamortised bond issue expenses	(13,692)	–
	<u>2,286,296</u>	<u>–</u>

During the year, Magnificent issued 1,611,783,392 units of convertible bonds (the “Bonds”) and 644,713,356 units of warrants at an aggregate consideration of HK\$96,707,004. The Bonds, which carry interest at 5 per cent per annum payable quarterly in arrears with the last payment due on 14th November, 2002, entitle the holders thereof to convert the Bonds into shares of Magnificent at a conversion price of HK\$0.06 per share during the period from 14th May, 2001 to 14th November, 2002 (the “Maturity Date”). Magnificent may redeem all or some of the Bonds at any time prior to the Maturity Date, subject to giving not less than 30 days nor more than 60 days of advance notice, at 120 per cent of their principal amount together with accrued interest. On the Maturity Date, any units of the Bonds not redeemed, repaid or converted will be mandatorily converted into shares of Magnificent at the conversion price.

At 31st December, 2001, the Bonds with an aggregate principal value of approximately HK\$86,604,000 (2000: Nil) held by the Company and its subsidiaries have been eliminated on consolidation.

Details regarding the warrants are set out in note 22.

### 25. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of unprovided deferred tax liabilities (assets) are as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	4,008,996	676,863
Unutilised tax losses	(4,827,368)	(811,545)
	<u>(818,372)</u>	<u>(134,682)</u>

Deferred tax liabilities (assets) have not been recognised in the financial statements as it is not certain that such taxation will crystallise in the foreseeable future.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 25. UNPROVIDED DEFERRED TAXATION (Continued)

Movements in unprovided deferred taxation during the year are as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Deferred tax charge (credit) because of:		
Difference between tax allowances and depreciation	57,118	337,085
Tax losses utilised (generated)	18,988	(647,230)
Arising from acquisition of subsidiaries	(759,796)	—
	<u>(683,690)</u>	<u>(310,145)</u>

Deferred tax has not been provided on the valuation increase or decrease arising on the revaluation of investment properties and long-term investments as profits or losses arising on disposal of these assets would not be subject to taxation. Accordingly, the revaluation increase or decrease does not constitute a timing difference for tax purposes.

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

	2001	2000
	HK\$	HK\$
Profit from ordinary activities before taxation	5,747,113	11,451,281
Share of results of associates	7,491,337	(3,448,972)
Unrealised holding gain on trading securities	(1,936,976)	—
Impairment loss on other securities	138,000	—
Interest expenses	3,192,236	3,758,432
Bond issue expenses amortised	2,976	—
Construction fees written off	—	150,000
Depreciation of property, plant and equipment	1,117,160	149,334
Gain on disposal of property, plant and equipment	(87,801)	—
Interest receivable from an associate not recognised	1,777,215	3,021,933
Movements in assets/liabilities held for operating activities:		
Decrease in inventories	17,046	—
Increase in investments in securities	(116,883)	—
Increase in trade and other receivables, deposits and prepayments	(1,127,347)	(17,173)
Increase in trade balance due from a shareholder	(47,500)	—
(Decrease) increase in trade and other payables and rental deposits received	(65,843,351)	253,005
(Decrease) increase in amount due to an associate	(5,123,826)	1,749,872
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	<u>(54,800,601)</u>	<u>17,067,712</u>

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 27. ACQUISITION OF SUBSIDIARIES

On 22nd October, 2001, the Group acquired an additional 1.98% of the issued ordinary shares of its former associate, Magnificent, through the exercise of the convertible bonds issued by Magnificent. This acquisition has been accounted for under the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisition is HK\$21,889,492.

	<i>HK\$</i>
Consolidated assets and liabilities of Magnificent acquired	
Investment properties	500,600,000
Property, plant and equipment	561,864,027
Properties under development	104,651,783
Investments in other securities	35,013,666
Interests in associates	95,786,032
Inventories	420,630
Properties for sale	70,652,730
Investments in trading securities	26,542,042
Trade and other receivables	2,757,218
Deposits and prepayments	1,266,468
Trade balances due from shareholders	198,579
Pledged bank deposits	14,803,242
Bank balances and cash	6,193,757
Trade and other payables	(70,649,452)
Rental and other deposits received	(5,831,200)
Advance from the Company	(94,299,617)
Advance from a director	(23,051,877)
Amount due to an associate	(157,478)
Taxation liabilities	(1,162,683)
Bank loans, secured	(77,399,301)
Bank overdrafts	(486,565)
Convertible bonds	(88,887,527)
	<u>1,058,824,474</u>
<i>Less:</i> Minority interests	(519,107,749)
	<u>539,716,725</u>
<i>Less:</i> Carrying value of investment in associate	(510,027,233)
Negative goodwill	(21,889,492)
	<u><u>7,800,000</u></u>
 SATISFIED BY	
Conversion of convertible bonds	<u><u>7,800,000</u></u>
 Net cash outflow arising on acquisition	
	<i>HK\$</i>
Pledged bank deposits acquired	14,803,242
Bank balances and cash acquired	6,193,757
Bank loans and overdrafts acquired	(77,885,866)
<i>Less:</i> Bank loans not within three months of maturity	31,116,281
	<u>31,116,281</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><u>(25,772,586)</u></u>

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 27. ACQUISITION OF SUBSIDIARIES (Continued)

The subsidiaries acquired during the year utilised HK\$59,811,780 from the Group's net operating cash flows, paid HK\$1,787,063 in respect of the net returns on investments and servicing of finance, utilised HK\$7,837,834 for investing activities and raised HK\$33,889,898 in respect of financing activities.

The subsidiaries acquired during the year contributed approximately HK\$11,802,000 to the Group's turnover, and HK\$3,097,000 to the Group's net profit for the year.

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

	Advances from a director and a shareholder <i>HK\$</i>	Bank loans <i>HK\$</i>
Balance at 1st January, 2000	47,706,942	–
Net cash inflow from financing	2,432,725	–
	<hr/>	<hr/>
Balance at 31st December, 2000	50,139,667	–
Net cash (outflow) inflow from financing	(2,930,685)	34,000,000
Acquisition of subsidiaries	23,051,877	31,116,281
	<hr/>	<hr/>
Balance at 31st December, 2001	<u>70,260,859</u>	<u>65,116,281</u>

### 29. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding commitments in respect of property development expenditure as follows:

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<i>HK\$</i>	<i>HK\$</i>
Contracted but not provided for in the financial statements	<u>10,141,822</u>	–
Authorised but not contracted for	<u>1,853,000</u>	–

The Company had no material capital commitment at the balance sheet date.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 30. OPERATING LEASE COMMITMENTS

#### The Group as lessor

Property rental income earned during the year is approximately HK\$10,188,000 (2000: HK\$6,600,000). The properties under leases have committed tenants for one to three years without termination options granted to tenants.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases:

	THE GROUP	
	2001 HK\$	2000 HK\$
Within one year	23,746,020	5,524,620
In the second to fifth years inclusive	6,491,796	2,880,648
	<u>30,237,816</u>	<u>8,405,268</u>

#### The Group as lessee

	THE GROUP	
	2001 HK\$	2000 HK\$
Minimum lease payments paid under operating leases during the year in respect of office premises	<u>277,500</u>	<u>—</u>

In addition, at the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Operating leases which expire:		
Within one year	210,000	—
In the second to fifth years inclusive	80,150	—
	<u>290,150</u>	<u>—</u>

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

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

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### 31. PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

At the balance sheet date,

- (a) the bank loan facilities of Magnificent group of companies, which have become subsidiaries of the Company during the year, were utilised to the extent of approximately HK\$136 million, which were secured by guarantees issued by Magnificent amounted to approximately HK\$164 million and certain assets and income of its subsidiaries as follows:
- properties together with related assets with an aggregate carrying book value of approximately HK\$554 million;
  - pledge of shares in and subordination of loans due from subsidiaries with an aggregate carrying value of approximately HK\$177 million;
  - assignment of rentals and hotel revenue; and
  - pledge of listed securities and bank deposits with an aggregate carrying value of approximately HK\$55 million and HK\$6 million respectively.

The facilities secured by the pledge of bank deposits had not been utilised at the balance sheet date.

- (b) Certain employees of Magnificent group of companies had completed the required number of years of service under Hong Kong's Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31st December, 2001 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$2,250,000. No provision has been made in the financial statements in respect of such long service payments.

### 32. RELATED PARTY TRANSACTIONS

- (a) During the year, the holding company, Shun Ho Resources, made unsecured short-term advances to the Company which carry interest chargeable at Hong Kong Inter-bank Offer Rate ("HIBOR") plus 1% per annum. The advances are repayable on demand. Interest payable by the Company on such advances amounted to HK\$1,402,822 (2000: HK\$2,250,157) in respect of the year. At the balance sheet date, such advances amounted to HK\$28,185,717 (2000: HK\$32,085,189) remained outstanding.

In addition, the Group had trade balance due from Shun Ho Resources amounted to HK\$170,760 (2000: Nil) which is unsecured, interest free and repayable on demand.

- (b) During the year, a director of the Company, Mr. William Cheng Kai Man, made unsecured short-term advances to the Group which carry interest chargeable at rates ranging from bank fixed deposit rates to HIBOR plus 2% per annum. The advances are repayable on demand. Interest payable by the Group on such advances amounted to HK\$1,788,110 (2000: HK\$2,608,769) in respect of the year, of which HK\$667,643 (2000: HK\$1,248,117) was accounted for by Magnificent prior to becoming a subsidiary of the Company.
- (c) During the year, a subsidiary of Magnificent, Claymont Services Limited ("Claymont"), made unsecured advances to its associate, Lucky Country Development Limited, with no fixed repayment terms. Such advances to the extent of HK\$60,000,000 (2000: HK\$60,000,000) carried interest chargeable at rates ranging from 5% to 8.5% (2000: 8.5%) per annum with the remaining balance interest free. Interest receivable by Claymont on such advances amounted to HK\$4,050,000 (2000: HK\$5,100,000) in respect of the year, of which HK\$3,479,348 (2000: HK\$5,100,000) was accounted for by Magnificent prior to becoming a subsidiary of the Company. At the balance sheet date, advances due from the associate to the Group amounted to HK\$91,635,735 (2000: Nil) remained outstanding.

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 32. RELATED PARTY TRANSACTIONS (Continued)

(d) In addition, the Company and its subsidiaries had the following transactions with Magnificent group of companies:

(i) A property owned by a subsidiary of Company was let to Magnificent at the mutually agreed rental of HK\$100,000 (2000: HK\$100,000) per month. Net rental received from Magnificent for the year amounted to HK\$1,080,000 (2000: HK\$1,080,000).

(ii) During the year, the Company made advances to Magnificent and its subsidiary, which are unsecured and repayable on demand, carry interest chargeable at HIBOR plus 1% per annum. At the balance sheet date, such advances amounted to HK\$94,021,426 (2000: HK\$179,740,352) remained outstanding. Interest receivable by the Company on such advances amounted to a total of HK\$6,399,121 (2000: HK\$12,128,277) in respect of the year.

At 31st December, 2000, the Company had outstanding amount due to Magnificent of HK\$5,199,145 which was unsecured, interest free and repayable on demand. Such amount was fully repaid during the year.

(iii) As disclosed in note 24, Magnificent issued 1,611,783,392 units of 5% mandatory convertible bonds and 644,713,356 units of warrants during the year which were underwritten by the Company free of underwriting commission. The Company and its subsidiaries subscribed for approximately 1,573,403,000 units of convertible bonds and 629,361,000 units of warrants at an aggregate consideration of approximately HK\$94,404,000. Interest receivable by the Group on the convertible bonds amounted to HK\$2,850,653 (2000: Nil) in respect of the year.

(iv) During the year, expenses amounted to HK\$1,592,833 (2000: HK\$2,055,184) were payable by the Company to Magnificent for administrative services provided by Magnificent on a cost reimbursement basis.

### 33. PARTICULARS OF SUBSIDIARIES

All the subsidiaries of the Company are incorporated and operating in Hong Kong except as otherwise indicated.

None of the subsidiaries had any loan capital outstanding at 31st December, 2001 or at any time during the year.

Name of subsidiary	Number of ordinary shares	Paid up issued/ registered ordinary capital Par value	Proportion of nominal value of issued/registered ordinary capital held by		Principal activities
			Company %	Subsidiary %	
Duplexway Limited	2	HK\$1	100	–	Property investment
Fastgrow Engineering & Construction Company Limited	2	HK\$1	100	–	Inactive
Good Taylor Limited	2	HK\$1	100	–	Investment holding
Lucky Bongo Limited	2	HK\$10	–	100	Inactive
Miluda Limited	2	HK\$1	100	–	Provision of secretarial services
Noblesse International Limited (i)	1	US\$1	100	–	Property investment
Ontrade Investment Limited	2	HK\$10	100	–	Inactive
Ontrade Nominees Limited	2	HK\$10	100	–	Provision of nominee services
Ontrade Property & Development Limited	2	HK\$10	100	–	Inactive

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 33. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Paid up issued/ registered ordinary capital		Proportion of nominal value of issued/registered ordinary capital held by		Principal activities
	Number of ordinary shares	Par value	Company	Subsidiary	
			%	%	
Shun Ho Construction Company Limited	2	HK\$1	100	–	Inactive
Shun Ho Contractor Limited	2	HK\$1	100	–	Inactive
Shun Ho Engineering Company Limited	2	HK\$1	100	–	Inactive
Shun Ho (Lands Development) Limited (i)	10	US\$1	100	–	Investment holding
Shun Ho Property Development Limited	2	HK\$1	100	–	Inactive
Shun Ho Technology Developments Limited	2	HK\$10	100	–	Internet and e-commerce business
South Point Investments Limited (i)	1	US\$1	100	–	Investment holding
Tianjin First Pacific Shun Ho Real Estates Co., Ltd. (ii)		RMB4,542,339	–	100	Inactive
Ascot Apartment Hotel Limited	10,000	HK\$1	–	100	Inactive
Ascot House Limited	1,000,000	HK\$1	–	100	Inactive
Ascot Lodge Limited	2	HK\$1	–	100	Inactive
Ascot Villas Limited	4,000,000	HK\$1	–	100	Inactive
Babenna Limited	2	HK\$10	–	100	Investment holding
Brunker Trading Limited (i)	1	US\$1	–	100	Investment holding
Claymont Services Limited (i)	1	US\$1	–	100	Investment holding
Gainwell Holdings Limited	4	HK\$1	–	100	Property investment
Harbour Rich Industrial Limited	10,000	HK\$1	–	100	Property development
Hotel Royale International Limited	2	HK\$1	–	100	Inactive
Houston Venture Limited (i)	1	US\$1	–	100	Investment holding
Joes River Limited	2	HK\$1	–	100	Property investment
Joligance Limited	2	HK\$1	–	100	Investment holding
Longham Investment Limited (i)	1	US\$1	–	100	Investment holding
Lynista Services Limited (i)	1	US\$1	–	100	Investment holding
Magnificent Estates Limited	3,353,614,126	HK\$0.01	41.3	9.7	Investment holding and provision of management services
Mercury Fast Limited	2	HK\$1	–	100	Securities trading and investment holding
Mulbinga Limited (i)	1	US\$1	–	100	Investment holding
New Champion Developments Limited (i)	1	US\$1	–	100	Vessel leasing
On Sea Limited	2	HK\$1	–	100	Vessel leasing
Pearmon Limited	100	HK\$10	–	100	Property trading
Perfect View Investment Limited	2	HK\$1	–	100	Inactive

## Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2001

### 33. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Number of ordinary shares	Paid up issued/ registered ordinary capital Par value	Proportion of nominal value of issued/registered ordinary capital held by		Principal activities
			Company	Subsidiary	
			%	%	
Shanghai Shun Ho (Lands Development) Limited (i)	1	US\$1	–	100	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. (ii)	Registered capital	US\$4,950,000	–	100	Property development
Shun Ho Building Limited	2	HK\$1	–	100	Inactive
Shun Ho Capital Properties Limited (i)	1	US\$1	–	100	Investment holding
Shun Ho Construction (Holdings) Limited	2	HK\$10	–	100	Inactive
Shun Ho Real Estate Limited	2	HK\$1	50	50	Provision of hospitality services
Silver Courage Company Limited	2	HK\$10	–	100	Property investment
Sungalia Enterprises Limited (i)	1	US\$1	–	100	Investment holding
Trans-Profit Limited	1,000,000	HK\$1	–	100	Property investment
United Assets Company Limited	2,000,000	HK\$1	–	100	Hotel ownership and investment holding
Wah Leung Finance Limited	2,500,000	HK\$1	–	100	Inactive

(i) Incorporated in the British Virgin Islands

(ii) Wholly foreign owned enterprise established and operating in the PRC