



# Notes to the Accounts

For the year ended 31 May 2001

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the accounts

The basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties as explained in the accounting policies set out below.

The Group sustained a consolidated net loss of HK\$154,083,000 for the year ended 31 May 2001. At 31 May 2001 the Group had net current liabilities of HK\$25,915,000 which included current bank and other loans and obligations under finance leases of HK\$89,198,000 and HK\$10,122,000 respectively. Up to the date of approval of these accounts, the Group is not in compliance with certain financial covenants. Certain bankers and other financial institutions have taken legal steps to demand repayment of the loans together with the accrued interest as described in note 33 to the accounts.

The Group is currently negotiating with its bankers and the other financial institutions which provide credit facilities to the Group, to either extend the credit facilities or to reschedule the Group's indebtedness. However as of the date on which these accounts are approved, no formal arrangements have been concluded and therefore the situation remains uncertain.

The accounts have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the ordinary course of business. This assumption is dependent upon the successful negotiation with the Group's bankers and other financial institutions to extend the credit facilities and/or to reschedule the Group's indebtedness.

The accounts do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary should the going concern basis not be applicable.



## 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (c) Basis of consolidation

- (i) The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 May each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (ii) Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves on acquisition. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost is credited to reserves. On disposal of a subsidiary any purchased goodwill which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

### (d) Interests in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Interests in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.



## 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (e) Fixed assets

- (i) Fixed assets are carried in the balance sheet on the following bases:
- investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers; and
  - all other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1 (i)).
- (ii) Increases in valuation of investment properties are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to profit and loss account. Any subsequent increases are credited to profit and loss account up to the amount previously debited.
- (iii) The carrying amount of fixed assets (other than investment properties with an unexpired lease term of more than 20 years) is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.
- When the circumstances and events that led to the write-down or write-off cease exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.
- (iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.



## 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (e) Fixed assets (Cont'd)

- (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

### (f) Concession rights

- (i) Concession rights that are acquired by the Group in connection with the rights to extract timber from forests concession areas for an approved duration are stated in the balance sheet at cost less accumulated amortisation (see note 1(i)).
- (ii) The carrying amount of concession rights is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as amortisation had the write-down or write-off not occurred.

- (iii) Subsequent expenditure on concession rights after its purchase is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributable to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the concession rights.



## 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (g) Website development costs

- (i) Expenditure on development activities in connection with websites is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation (see note 1(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

- (ii) The carrying amount of website development costs is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of the development costs is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as amortisation had the write-down or write-off not occurred.

- (iii) Subsequent expenditure on website development costs after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributable to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the websites.



## 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (h) Leased assets

#### (i) Assets acquired under finance leases

Where assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note I(i). Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

#### (ii) Operating lease charges

Rental payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

### (i) Depreciation and amortisation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is calculated to write off the cost of other fixed assets over their estimated useful lives as follows:

- land use rights are included under land and buildings and are amortised on a straight-line basis over the period of entitlement;
- buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the leases;



## 1. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

### (i) Depreciation and amortisation *(Cont'd)*

#### (ii) *(Cont'd)*

- depreciation on vessels is calculated to write off their cost on a straight-line basis over their expected useful lives to their estimated residual values. The estimated useful life of a vessel as determined by the directors is 15 years from the date of its first registration; and
- other fixed assets are depreciated on a reducing balance basis at rates sufficient to write off their cost over their estimated useful lives. The principal annual rate is 15%.

#### (iii) Amortisation of concession rights and website development costs is charged to the profit and loss account over their estimated useful lives as follows:

- concession rights are amortised on the higher of units-of-production basis and a straight-line basis over the licence period from the date of obtaining the licence until the expiry of the timber licences; and
- development costs of websites are amortised on a straight-line basis over 5 years.

### (j) Inventories

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

Cost is calculated on a weighted average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



## 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (k) Construction contracts

The accounting policy for contract revenue is set out in note 1(n)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade and other receivables". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Trade and other payables".

### (l) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

### (m) Taxation

- (i) The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Taxation is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.
- (ii) Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.





## 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

#### (i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes sales taxes and is after deduction of any trade discounts.

#### (ii) Contract revenue

When the outcome of a construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

#### (iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account on a straight-line basis over the term of the lease.

#### (iv) Interest income

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



## 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translations are dealt with in the profit and loss account.

The results and balance sheet items of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with a movement in reserves.

### (p) Retirement costs

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and other retirement benefit schemes are charged to the profit and loss account when incurred.

### (q) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred.

### (r) Related parties

For the purposes of these accounts parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.



Notes to the Accounts  
For the year ended 31 May 2001

## 2. TURNOVER

The principal activities of the Group are construction, sale of timber from its timber concessions, trading of machinery and parts, leasing of machinery, vessels and property investment.

Turnover represents the aggregate of sales value of goods supplied to customers, rental income, revenue from sales of machinery and revenue from construction contracts. Revenue excludes sales taxes and is after deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

The Group	2001 HK\$'000	2000 HK\$'000
Gross proceeds from machinery and parts sold	50,490	6,169
Gross proceeds from timber sold	3,998	–
Gross rentals from machinery, vessels and investment properties	9,332	21,968
Revenue from construction contracts	231,828	339,057
	<b>295,648</b>	<b>367,194</b>



### 3. SEGMENTAL INFORMATION

Analysis of the principal activities and geographical locations of the operations of the Group during the financial year are as follows:

The Group	Group's turnover		Contribution to (loss)/profit from ordinary activities before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>(a) Principal activities:</b>				
Construction	231,828	339,057	(35,634)	7,866
Machinery, vessels and property rental	9,332	21,968	(44,293)	(411)
Websites development	–	–	(64,380)	–
Sales of machinery and parts	50,490	6,169	2,778	(591)
Sales of timber	3,998	–	(18,303)	–
	<b>295,648</b>	<b>367,194</b>	<b>(159,832)</b>	<b>6,864</b>
<b>(b) Geographical locations of operations:</b>				
Hong Kong	291,650	271,924	(141,529)	196
The People's Republic of China	2,867	78,270	(6,013)	1,816
The Republic of Suriname	1,131	–	(12,290)	–
Others	–	17,000	–	4,852
	<b>295,648</b>	<b>367,194</b>	<b>(159,832)</b>	<b>6,864</b>

### 4. OTHER REVENUE

The Group	2001 HK\$'000	2000 HK\$'000
Bank interest income	2,043	2,164
Other interest income	7,145	–
Profit on disposal of a subsidiary	109	–
Others	1,577	–
	<b>10,874</b>	<b>2,164</b>



Notes to the Accounts  
For the year ended 31 May 2001

5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

The Group	2001 HK\$'000	2000 HK\$'000
<b>(a) Finance costs:</b>		
Finance charges on obligations under finance leases	3,403	2,724
Interest on bank advances and other borrowings		
– repayable within five years	12,463	8,928
– repayable more than five years	222	990
Interest on convertible notes	492	54
Other interest paid	217	–
	<b>16,797</b>	<b>12,696</b>
<b>(b) Other items:</b>		
Amortisation of concession rights	7,329	–
Amortisation of issue expenses and redemption premium of convertible notes	1,040	32
Auditors' remuneration	649	552
Depreciation		
– fixed assets held under finance leases	6,454	6,049
– owned fixed assets	8,293	6,752
Loss on disposal of fixed assets	722	2,865
Operating lease charges		
– hire of land and buildings	1,288	826
– hire of machinery	2,919	2,529
Operating lease receivable from investment properties less direct outgoings of HK\$170,000 (2000: HK\$38,000)	(458)	(294)
Retirement benefit costs	455	247
Revaluation deficit on investment properties	11,050	6,002
Staff costs	17,325	17,278
Write-down of recoverable amount of fixed assets	29,192	–
Write-off of website development costs	3,634	–
Write-off of goodwill	60,720	–



## 6. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

The Group	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	46	614
Under/(over)provision in respect of prior years	26	(48)
	72	566
Overseas taxation	–	2,423
Deferred taxation ( <i>note 28(a)</i> )	(5,821)	279
	(5,749)	3,268

The provision for Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for the year ended 31 May 2001.

No provision for overseas taxation has been made as the Group sustained a loss for overseas taxation purposes for the year ended 31 May 2001.

(b) Taxation in the consolidated balance sheet represents:

The Group	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	46	614
Balance of Hong Kong Profits Tax (recoverable)/payable relating to prior years	(461)	419
	(415)	1,033
Tax (recoverable)/payable for Hong Kong Profits Tax	(415)	1,033
Tax payable for overseas taxation	5,622	5,622
	5,207	6,655
Representing:		
Tax payable	5,622	6,655
Tax recoverable	(415)	–
	5,207	6,655



Notes to the Accounts  
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## 7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

The Group	2001 HK\$'000	2000 HK\$'000
Fees	100	–
Salaries and other emoluments	1,813	1,831
Retirement scheme contributions	66	55
	<b>1,979</b>	<b>1,886</b>

Included in the directors' remuneration were fees totalling HK\$100,000 (2000: HK\$Nil) paid to independent non-executive directors during the year.

The remuneration of the directors is within the following band:

	Number of directors	
	2001	2000
HK\$Nil – HK\$1,000,000	6	6



## 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2000: one) is a director whose emoluments are disclosed in note 7. The emoluments in respect of the other four (2000: four) highest paid employees are as follows:

The Group	2001 HK\$'000	2000 HK\$'000
Salaries and other emoluments	2,379	2,152
Retirement scheme contributions	74	80
	2,453	2,232

The emoluments of the four (2000: four) individuals with the highest emoluments are within the following band:

	Number of employees	
	2001	2000
HK\$Nil – HK\$1,000,000	4	4

## 9. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$73,663,000 (2000: profit of HK\$1,534,000) which has been dealt with in the accounts of the Company.

## 10. DIVIDENDS

The Group	2001 HK\$'000	2000 HK\$'000
Adjustment to prior year's final dividend	–	1,320





## 11. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$154,083,000 (2000: profit of HK\$3,596,000) and the weighted average of 368,836,000 (2000: 267,800,000) ordinary shares in issue during the year.

### (b) Diluted earnings per share

Diluted loss per share for each of the years ended 31 May 2001 and 2000 is not shown as the potential ordinary shares are anti-dilutive.

## 12. RETIREMENT BENEFITS SCHEME

### (a) The Mandatory Provident Fund ("MPF") exempted defined contribution retirement scheme

The Group contributed to a defined contribution retirement scheme which was available to all employees in Hong Kong. Contributions to the scheme by the Group and the employees are calculated at a fixed percentage of employees' basic salaries. The assets of the scheme are held separately from those of the Group in an independently administered fund. The retirement benefits scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund. The Group's contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. In July 2000 this defined contribution retirement scheme became a MPF exempted defined contribution retirement scheme. Forfeited contributions totalling HK\$82,000 (2000: HK\$69,000) were utilised during the year. There were no forfeited contributions available at 31 May 2001 and 2000. There were no contributions payable to the fund at 31 May 2001 and 2000.

### (b) The Mandatory Provident Fund scheme

Following the introduction of the Mandatory Provident Fund Scheme on 1 December 2000 the Group introduced a MPF scheme. Contributions by the Group to the scheme are charged to the profit and loss account. The assets of the scheme are held separately from those of the Group in an independently administered fund. No contributions were payable to the fund at 31 May 2001.



Notes to the Accounts  
For the year ended 31 May 2001

13. FIXED ASSETS

The Group	Land and buildings held for own use	Vessels	Machinery and equipment	Furniture and fittings	Motor vehicles	Sub-total	Investment properties	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost or valuation:</b>								
At 1 June 2000	–	39,217	88,171	1,997	1,880	131,265	41,700	172,965
Additions								
– through acquisition of subsidiaries	1,282	–	15,392	71	1,877	18,622	–	18,622
– others	7,149	–	19,148	230	2,518	29,045	–	29,045
Disposals								
– through disposal of a subsidiary	–	–	(24)	–	–	(24)	–	(24)
– others	–	–	(17,768)	(54)	(122)	(17,944)	–	(17,944)
Deficit on revaluation	–	–	–	–	–	–	(11,050)	(11,050)
<b>At 31 May 2001</b>	<b>8,431</b>	<b>39,217</b>	<b>104,919</b>	<b>2,244</b>	<b>6,153</b>	<b>160,964</b>	<b>30,650</b>	<b>191,614</b>
<b>Representing:</b>								
Cost	8,431	39,217	104,919	2,244	6,153	160,964	–	160,964
Valuation – 2001	–	–	–	–	–	–	30,650	30,650
	8,431	39,217	104,919	2,244	6,153	160,964	30,650	191,614
<b>Aggregate amortisation and depreciation:</b>								
At 1 June 2000	–	15,697	28,251	1,275	1,077	46,300	–	46,300
Through acquisition of subsidiaries	32	–	6,381	25	695	7,133	–	7,133
Charge for the year	196	2,390	11,385	138	638	14,747	–	14,747
Write-down of recoverable amount	–	16,480	12,712	–	–	29,192	–	29,192
Written back on disposals								
– through disposal of a subsidiary	–	–	(3)	–	–	(3)	–	(3)
– others	–	–	(6,217)	(27)	(76)	(6,320)	–	(6,320)
<b>At 31 May 2001</b>	<b>228</b>	<b>34,567</b>	<b>52,509</b>	<b>1,411</b>	<b>2,334</b>	<b>91,049</b>	<b>–</b>	<b>91,049</b>
<b>Net book value:</b>								
<b>At 31 May 2001</b>	<b>8,203</b>	<b>4,650</b>	<b>52,410</b>	<b>833</b>	<b>3,819</b>	<b>69,915</b>	<b>30,650</b>	<b>100,565</b>
At 31 May 2000	–	23,520	59,920	722	803	84,965	41,700	126,665



Notes to the Accounts  
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13. FIXED ASSETS (Cont'd)

Notes:

- (a) The analysis of the Group's net book value or valuation of land and buildings and investment properties is as follows:

	Land and buildings		Investment properties	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Medium term leases				
– in Hong Kong	–	–	30,650	41,470
– outside Hong Kong	8,203	–	–	–
	<b>8,203</b>	–	<b>30,650</b>	41,470

- (b) Investment properties of the Group were valued at 31 May 2001 on an open market value basis by an independent firm of chartered surveyors, CB Richard Ellis Limited who have among their staff associate members of the Hong Kong Institute of Surveyors. The revaluation deficit of HK\$11,050,000 (2000: HK\$9,194,000) has been dealt with as follows:

	2001 HK\$'000	2000 HK\$'000
Charged to the profit and loss account	11,050	6,002
Set off against the revaluation surplus	–	3,192
	<b>11,050</b>	9,194

- (c) The net book value of machinery and equipment held under finance leases of the Group amounted to HK\$36,084,000 (2000: HK\$37,869,000).
- (d) Investment properties and vessels with carrying values of HK\$30,650,000 and HK\$4,040,000 (2000: HK\$41,700,000 and HK\$10,924,000) respectively were pledged to banks against banking facilities granted to the Group (notes 25(b)).



#### 14. INTERESTS IN SUBSIDIARIES

<b>The Company</b>	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares, at cost	77,453	77,453
Amounts due from subsidiaries	225,855	159,599
	<b>303,308</b>	237,052
Less: Provision	(72,155)	–
	<b>231,153</b>	237,052

The amounts due from subsidiaries are unsecured, interest free and are not due for repayment in the next twelve months.

Details of the principal subsidiaries are set out in note 37 to the accounts.

The auditors' report of the accounts of Finestyle Investments (Suriname) N.V. for the period ended 31 May 2001 expressed the following qualified opinion:

##### **Matters affecting opinion**

The size of the company and the level of activities have been limited to date. The company has not yet installed an appropriate internal control system nor proper segregation of duties. We have been unable to perform sufficient audit procedures to obtain reasonable assurance on the completeness of sales revenues, expenses and related items as shown in the financial statements.

We have not been able to perform a stock take at balance sheet date because we received the audit instructions far beyond this date.

##### **Opinion**

For the reasons described in the preceding paragraph, we are unable to express an opinion about whether the financial statements taken as a whole give a true and fair view. However our audit has not revealed any adjustments that had to be made to these financial statements.



Notes to the Accounts  
For the year ended 31 May 2001

15. CONCESSION RIGHTS

The Group	HK\$'000
<b>Cost:</b>	
Additions through acquisition of subsidiaries and at 31 May 2001	112,723
<b>Accumulated amortisation:</b>	
Through acquisition of subsidiaries	138
Charge for the year	7,329
<b>At 31 May 2001</b>	<b>7,467</b>
<b>Net book value:</b>	
<b>At 31 May 2001</b>	<b>105,256</b>

Concession rights were acquired in a business combination that is an acquisition. The cost of concession rights is based on its fair value at the date of acquisition.

The concessions represent incidental cutting licences which cover an area of 27,975 hectares. The Group applied to the Ministry of Natural Resources of the Republic of Suriname for a ten-year concession rights for these locations and the ten-year concession rights were granted on 1 March 2002. During the period before the ten-year concession rights were granted on 1 March 2002 the Group continued with its activities in these areas.

The directors have evaluated all the relevant facts available to them and are of the opinion that there are no material adverse conditions precluding the Group from implementing its business development plans for these concession rights. Accordingly no provision against the carrying value of these concession rights has been made in the accounts.



Notes to the Accounts  
For the year ended 31 May 2001

16. WEBSITE DEVELOPMENT COSTS

The Group	HK\$'000
<b>Cost:</b>	
Additions	
– through acquisition of subsidiaries	3,344
– others	290
Write-off	(3,634)
<b>At 31 May 2001</b>	<b>–</b>

17. GOODWILL

The Group	HK\$'000
<b>Cost:</b>	
Additions arising on acquisition of subsidiaries	60,720
Write-off of goodwill ( <i>note 30(a)</i> )	(60,720)
<b>At 31 May 2001</b>	<b>–</b>

In April 2001 the Group acquired 100% interests in Hardmeadow Services Limited (“Hardmeadow”), Urban Edge Services Limited (“Urban Edge”) and Gonhaven Services Limited (“Gonhaven”) at a consideration of HK\$38,504,000, HK\$4,400,000 and HK\$21,166,000 respectively. The consideration has been determined by the directors after taking into account valuation reports prepared by a consultant.



Notes to the Accounts  
For the year ended 31 May 2001

17. GOODWILL (Cont'd)

The consideration was satisfied as follows:

	2001 HK\$'000
Issue of ordinary shares of the Company	4,400
Assignments of the Group's trade receivables to vendors	59,670
<b>Total consideration</b>	<b>64,070</b>

At the dates of acquisition, the net assets of Hardmeadow, Urban Edge and Gonhaven were approximately HK\$1,132,000, HK\$1,202,000 and HK\$1,016,000 respectively, and the principal assets of Hardmeadow, Urban Edge and Gonhaven were website development in WoodsMarket.com, SuperTender.com and Nicefuel.com. These websites have not commenced operations. The directors evaluated all the relevant facts available to them and considered that there were no future economic benefits arising from this goodwill and therefore the goodwill was written off to profit and loss account as at 31 May 2001.

18. INVENTORIES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Finished goods – timber	4,369	69	–	–

Included in finished goods are inventories of HK\$3,156,000 (2000: HK\$Nil) stated at net realisable value.



## 19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts due from related companies (note 34(b))	1,493	51,616	–	–
Loan receivable (note (a))	78,397	47,000	–	–
Trade receivables, deposits and other receivables	27,907	127,871	30	–
Temporary advances	8,945	91,924	–	–
Gross amount due from customers for contract work (note 20)	2,271	6,683	–	–
	<b>119,013</b>	<b>325,094</b>	<b>30</b>	<b>–</b>

Notes:

- (a) Pursuant to an agreement dated 1 May 2000 entered into by the Group, a debtor (the "Debtor") and an independent third party (the "Assignee"), a balance of HK\$47,000,000 owed to the Group by the Debtor was assigned to the Assignee.

Pursuant to another agreement dated 1 June 2000 entered into by the Group, the Assignee and a related company of the Group (the "Related Company"), a further balance of HK\$25,300,000 due to the Group by the Related Company was also assigned to the Assignee (note 34(b)(iv)).

According to the above agreements, the Debtor and the Related Company are released from any obligation to settle the underlying debts and such obligations will be fully undertaken by the Assignee. The Assignee is a company incorporated in the Republic of Suriname and is engaged in the forestry business. According to the agreements, the above balances will be settled through the supply of timber over a period of five years. The debts assigned carry a fixed interest rate of 8% per annum. No security has been given to the Group over the debts assigned.

Interest income for the year ended 31 May 2001 was HK\$6,097,000 in connection with the above two assignments. As at 31 May 2001, the total balance due from the Assignee was HK\$78,397,000.

The Assignee has not settled any outstanding balance up to the date of approval of these accounts. However, the directors are of the opinion that the above assignments were in the best interests of the Group which has commenced its timber trading business. The directors expect that the amounts due can be collected in full through the supply of timber over a period of five years. No provision for these receivables has been made in the accounts.





Notes to the Accounts  
For the year ended 31 May 2001

19. TRADE AND OTHER RECEIVABLES (Cont'd)

Notes: (Cont'd)

- (b) All of the trade and other receivables, apart from those mentioned above are expected to be recovered within one year.
- (c) Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following aging analysis:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Current	10,163	28,880	–	–
1 to 3 months	2,444	36,694	–	–
More than 3 months but less than 12 months	5,111	17,722	–	–
More than 12 months	–	1,999	–	–
Retention receivables	17,718	85,295	–	–
	7,187	26,532	–	–
	<b>24,905</b>	<b>111,827</b>	<b>–</b>	<b>–</b>

The credit terms given to trade debtors vary and are generally based on the financial strengths of individual debtors. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of debtors are performed periodically.



## 20. CONSTRUCTION CONTRACTS

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
The aggregate amount of costs incurred plus recognised profits less recognised losses to date	508,826	992,685	–	–
Less: Progress billings	507,457	986,052	–	–
	<b>1,369</b>	6,633	–	–

The gross amount due from customers for contract work at 31 May 2001 that is expected to be recovered within one year is HK\$2,271,000 (2000: HK\$6,683,000).

The gross amount due to customers for contract work at 31 May 2001 that is expected to be settled within one year is HK\$902,000 (2000: HK\$50,000).

In respect of construction contracts in progress at the balance sheet date the amount of retention receivables from customers recorded within "Trade and other receivables" at 31 May 2001 is HK\$7,187,000 (2000: HK\$26,532,000).

## 21. PLEDGED DEPOSITS WITH BANKS

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Pledged deposits	10,610	30,050	–	–

Pledged deposits with banks maturing within three months of the balance sheet date have been pledged to banks as security for the bank loans and overdrafts (note 25(b)).



Notes to the Accounts  
For the year ended 31 May 2001

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash at bank and in hand	3,372	11,651	23	817

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Creditors and other payables	57,850	70,288	761	400
Amounts due to related companies	–	360	–	–
Gross amount due to customers for contract work (note 20)	902	50	–	–
	58,752	70,698	761	400

Included in trade and other payables are trade creditors with the following aging analysis:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Due within 1 month or on demand	13,822	17,858	–	–
Due after 1 month but within 3 months	12,958	22,866	–	–
Due after 3 months but within 6 months	2,855	1,326	–	–
Due after 6 months	13,854	21,181	–	–
	43,489	63,231	–	–

24. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest free and is not due for repayment in the next twelve months.



Notes to the Accounts  
For the year ended 31 May 2001

25. BANK AND OTHER LOANS

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans, secured	66,703	54,953	–	–
Trust receipt loans, secured	26,231	21,576	–	–
Overdrafts, secured	12,094	34,166	–	–
Other loans, unsecured	6,778	–	6,778	–
	<b>111,806</b>	<b>110,695</b>	<b>6,778</b>	<b>–</b>

Notes:

(a) The borrowings are repayable as follows:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans, trust receipt loans and overdrafts:				
Within 1 year or on demand	82,420	90,114	–	–
After 1 year but within 2 years	3,571	1,568	–	–
After 2 years but within 5 years	4,873	3,530	–	–
After 5 years	14,164	15,483	–	–
	<b>22,608</b>	<b>20,581</b>	<b>–</b>	<b>–</b>
Other loans:				
Within 1 year or on demand	6,778	–	6,778	–
	<b>111,806</b>	<b>110,695</b>	<b>6,778</b>	<b>–</b>
Representing:				
Current liabilities	89,198	90,114	6,778	–
Non-current liabilities	22,608	20,581	–	–
	<b>111,806</b>	<b>110,695</b>	<b>6,778</b>	<b>–</b>



Notes to the Accounts  
For the year ended 31 May 2001

25. BANK AND OTHER LOANS (Cont'd)

(b) At 31 May 2001 the Group had banking facilities of approximately HK\$158,000,000 (2000: approximately HK\$163,000,000) which were secured by the following:

- (i) Assignment of contract proceeds;
- (ii) Corporate guarantees executed by the Company;
- (iii) Personal guarantees issued by the directors; and
- (iv) The following assets owned by the Group:

	2001 HK\$'000	2000 HK\$'000
Deposits with banks (note 21)	10,610	30,050
Investment properties and vessels (note 13(d))	34,690	52,624
	<b>45,300</b>	<b>82,674</b>

26. OBLIGATIONS UNDER FINANCE LEASES

At 31 May 2001 the Group had obligations under finance leases repayable as follows:

The Group	2001 HK\$'000	2000 HK\$'000
Within 1 year	10,969	15,877
After 1 year but within 2 years	4,247	3,590
After 2 years but within 5 years	1,914	50
	<b>17,130</b>	<b>19,517</b>
Finance charges relating to future periods	(1,323)	(2,563)
	<b>15,807</b>	<b>16,954</b>
Amount due within one year	(10,122)	(13,845)
	<b>5,685</b>	<b>3,109</b>



## 27. CONVERTIBLE NOTES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
5.5% convertible notes ( <i>note (a)</i> )	–	24,000	–	–
8% convertible notes ( <i>note (b)</i> )	10,900	–	10,900	–
Less: Unamortised notes issue expenses	(335)	(663)	(335)	–
Unamortised redemption premium	(742)	–	(742)	–
	<b>9,823</b>	23,337	<b>9,823</b>	–

*Notes:*

- (a) On 17 May 2000 Luen Cheong Tai Engineering Limited ("LCTEL"), a wholly owned subsidiary, and various subscribers entered into agreements pursuant to which 5.5% convertible notes with an aggregate principal amount of HK\$24,000,000 were issued. The principal amount of the convertible notes and the interest accrued thereon, unless previously repaid or converted into shares in accordance with the aforesaid agreements, will be repaid on 16 May 2003. The convertible notes are convertible to ordinary shares of US\$1 each of LCTEL or ordinary shares of HK\$0.10 each of the Company at any time between 1 August 2000 and 16 May 2003.

The conversion price shall be the higher of HK\$0.474 and 85% of the average price of the shares of the Company for the five trading days immediately prior to the date of the conversion notice.

On 3 August 2000 and 4 August 2000 the notes were fully converted into 44,296,000 and 6,328,000 ordinary shares of the Company respectively based on the conversion price of HK\$0.474 each.

- (b) The convertible note (the "Note") of HK\$10,000,000 which was issued on 22 January 2001 bears interest at a fixed rate of 8% per annum payable semi-annually in arrears. The Note is convertible in whole or in part at any time following the date of issue of the Note until 14 days before 21 January 2003 into ordinary shares of the Company at the fixed conversion price, subject to adjustment in certain events, of HK\$0.16 per share (the "Conversion Price"). The Conversion Price shall be adjusted from time to time pursuant to the placing and underwriting agreement dated 22 January 2001 and provided that the Conversion Price shall not be less than the par value of ordinary share of the Company. At any time prior to 21 January 2003 the Company shall have a right to redeem the Note at a price equal to the outstanding principal amount together with a premium of 10% of the outstanding principal amount and interest accrued. In the event of full conversion of the Note at the Conversion Price a total of 62,500,000 new ordinary shares of the Company will be issued. Any Note not converted into ordinary shares by the end of 21 January 2003 will be paid to the note holder together with a premium of 9% of the outstanding principal amount and interest accrued. During the year no conversion rights were exercised.



## 28. DEFERRED TAXATION

- (a) Movements on deferred taxation comprise:

The Group	2001 HK\$'000	2000 HK\$'000
At 1 June	8,931	8,652
Transfer (to)/from profit and loss account ( <i>note 6(a)</i> )	(5,821)	279
	<b>3,110</b>	8,931

No deferred tax assets in respect of unutilised tax losses carried forward which are available to set off against future assessable profits have been recognised as it is uncertain that these tax losses will be utilised in the foreseeable future.

- (b) Major components of the deferred taxation liabilities of the Group is as follows:

The Group	2001 HK\$'000	2000 HK\$'000
Depreciation allowances in excess of related depreciation	<b>3,110</b>	8,931



## 29. SHARE CAPITAL

	2001		2000	
	Number of shares	HK\$'000	Number of shares	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	1,000,000	100,000	1,000,000	100,000
<i>Issued and fully paid:</i>				
At 1 June	320,430	32,043	200,000	20,000
Shares issued under share option scheme (note (a))	–	–	13,500	1,350
Shares issued pursuant to scrip dividend scheme (note (b))	–	–	2,844	285
Rights issue (note (c))	–	–	64,086	6,408
Conversion of convertible notes (note 27(a))	50,624	5,062	–	–
Issue of new shares (note (d))	22,000	2,200	40,000	4,000
Placement of shares (note (e))	52,000	5,200	–	–
At 31 May	445,054	44,505	320,430	32,043

*Notes:*

- (a) Under the Share Option Scheme adopted by the Company on 7 November 1998, 13,500,000 share options were granted to certain employees of the Group on 28 August 1999. These share options are exercisable for a period commencing from 28 August 1999 to 6 November 2008 for the holders thereof to subscribe for ordinary shares of HK\$0.1 each of the Company at a subscription price of HK\$0.96 per share. All of these options were exercised on 15 September 1999.
- (b) Pursuant to the Scrip Dividend Scheme adopted by the Company on 20 November 1999, 2,844,401 ordinary shares were allotted at an assigned value of HK\$1.9845 each to shareholders who had elected the option to receive the final dividend for the year ended 31 May 1999 by way of new shares in lieu of cash.
- (c) On 19 January 2000, 64,086,100 rights shares were issued at HK\$1.00 each on the basis of one rights share for every four existing shares. The proceeds were used for general working capital purposes.
- (d) On 20 March 2001 the Company entered into an agreement to issue a total of 22,000,000 shares of HK\$0.1 each at price of HK\$0.2 per share for an aggregate consideration before expenses of HK\$4,400,000 to an independent third party as consideration for the acquisition of Urban Edge (note 17).
- (e) On 18 May 2001 the Company issued by means of a private placement 52,000,000 ordinary shares with par value of HK\$0.1 each at a cash consideration of HK\$0.16 per share.
- (f) All the above new shares rank pari passu with the existing shares.





Notes to the Accounts  
For the year ended 31 May 2001

30. RESERVES

(a) The Group

	Share premium HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Exchange (accumulated reserve HK\$'000	Retained profits/ losses) HK\$'000	Total HK\$'000
At 1 June 1999	13,164	10,802	3,192	–	88,906	116,064
Exercise of share options	11,610	–	–	–	–	11,610
Issue of new shares	37,080	–	–	–	–	37,080
Issue of new shares pursuant to scrip dividend scheme	5,360	–	–	–	–	5,360
Rights issue	57,678	–	–	–	–	57,678
Share issue expenses	(2,678)	–	–	–	–	(2,678)
Reversal of surplus on revaluation of investment properties	–	–	(3,192)	–	–	(3,192)
Exchange differences	–	–	–	18	–	18
Profit for the year	–	–	–	–	3,596	3,596
Dividends ( <i>note 10</i> )	–	–	–	–	(1,320)	(1,320)
<b>At 31 May 2000</b>	<b>122,214</b>	<b>10,802</b>	<b>–</b>	<b>18</b>	<b>91,182</b>	<b>224,216</b>
At 1 June 2000	122,214	10,802	–	18	91,182	224,216
Issue of new shares	5,320	–	–	–	–	5,320
Conversion of convertible notes ( <i>note 27(a)</i> )	18,938	–	–	–	–	18,938
Elimination of goodwill against reserves ( <i>note 17</i> )	–	–	–	–	(60,720)	(60,720)
Share issue expenses	(179)	–	–	–	–	(179)
Exchange differences	–	–	–	(37)	–	(37)
Write-off of goodwill ( <i>note 17</i> )	–	–	–	–	60,720	60,720
Loss for the year	–	–	–	–	(154,083)	(154,083)
<b>At 31 May 2001</b>	<b>146,293</b>	<b>10,802</b>	<b>–</b>	<b>(19)</b>	<b>(62,901)</b>	<b>94,175</b>



Notes to the Accounts  
For the year ended 31 May 2001

30. RESERVES (Cont'd)

(b) The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 June 1999	13,164	77,253	1,232	91,649
Exercise of share options	11,610	–	–	11,610
Issue of new shares	37,080	–	–	37,080
Issue of new shares pursuant to scrip dividend scheme	5,360	–	–	5,360
Rights issue	57,678	–	–	57,678
Share issue expenses	(2,678)	–	–	(2,678)
Profit for the year (note 9)	–	–	1,534	1,534
Dividends (note 10)	–	–	(1,320)	(1,320)
<b>At 31 May 2000</b>	<b>122,214</b>	<b>77,253</b>	<b>1,446</b>	<b>200,913</b>
At 1 June 2000	122,214	77,253	1,446	200,913
Issue of new shares	5,320	–	–	5,320
Conversion of convertible notes (note 27(a))	18,938	–	–	18,938
Share issue expenses	(179)	–	–	(179)
Loss for the year (note 9)	–	–	(73,663)	(73,663)
<b>At 31 May 2001</b>	<b>146,293</b>	<b>77,253</b>	<b>(72,217)</b>	<b>151,329</b>



Notes to the Accounts  
For the year ended 31 May 2001

**30. RESERVES** (Cont'd)

The contributed surplus of the Company represents the difference between the nominal value of the shares of the Company issued in exchange for the entire issued share capital of Luen Cheong Tai (BVI) Limited and the value of the underlying net assets of the subsidiaries as at the date they were acquired by the Company.

The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company in consideration thereof.

Under the Companies Law (1998 Revision) of the Cayman Islands, the contributed surplus account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's reserves available for distribution comprise the share premium account, contributed surplus account and retained earnings. At 31 May 2001, in the opinion of the directors, the Company is unable to make any distribution to shareholders.



### 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit from ordinary activities before taxation to net cash inflow/(outflow) from operating activities

	2001 HK\$'000	2000 HK\$'000
(Loss)/profit from ordinary activities before taxation	(159,832)	6,864
Amortisation of concession rights	7,329	–
Amortisation of expenses in connection with issue of convertible notes	752	–
Amortisation of redemption premium on convertible notes	288	32
Depreciation		
– fixed assets held under finance leases	6,454	6,049
– owned fixed assets	8,293	6,752
Interest element of finance leases	3,403	2,724
Interest income	(9,188)	(2,164)
Interest on bank borrowings	12,685	9,918
Interest on convertible notes	492	54
Loss on disposal of fixed assets	722	2,865
Other interest paid	217	–
Profit on disposal of a subsidiary	(109)	–
Revaluation deficit on investment properties	11,050	6,002
Write-down of recoverable amount of fixed assets	29,192	–
Write-off of website development costs	3,634	–
Write-off of goodwill	60,720	–
Increase in inventories	(2,684)	–
Decrease/(increase) in trade and other receivables	130,041	(91,852)
Decrease in trade and other payables	(14,025)	(16,750)
Foreign exchange	(19)	18
<b>Net cash inflow/(outflow) from operating activities</b>	<b>89,415</b>	<b>(69,488)</b>



Notes to the Accounts  
For the year ended 31 May 2001

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Purchase of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired		
Fixed assets	11,489	113
Concession rights	112,585	–
Website development costs	3,344	–
Other receivables	1,632	675
Cash at bank and in hand	647	767
Inventories	2,368	–
Trade and other payables	(2,279)	(584)
	129,786	971
Goodwill arising on consolidation (note 17)	60,720	–
	190,506	971
Satisfied by:		
Cash paid	126,436	971
Issue of ordinary shares of the Company	4,400	–
Assignments of the Group's trade receivables to vendors	59,670	–
	190,506	971

Subsidiaries acquired during the year utilised HK\$127,000 from the Group's net operating cash flows, contributed HK\$2,000 in respect of the net returns on investments and servicing of finance and utilised HK\$2,742,000 for investing activities.



31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Cash consideration	126,436	971
Cash at bank and in hand acquired	(647)	(767)
Deposit paid in previous year	125,789 (18,000)	204 18,000
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	<u>107,789</u>	<u>18,204</u>

(d) Disposal of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of		
Fixed assets	21	–
Other receivables	2	–
Cash at bank and in hand	84	–
Inventories	752	–
Trade and other payables	(200)	–
Attributable exchange reserve	(18)	–
Gain on disposal	641 109	– –
	<u>750</u>	<u>–</u>
Satisfied by:		
Cash received	<u>750</u>	<u>–</u>



31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(d) Disposal of a subsidiary (Cont'd)

The subsidiary disposed of during the year utilised HK\$387,000 from the Group's net operating cash flows, contributed HK\$4,000 in respect of the net returns on investments and servicing of finance and utilised HK\$10,000 for investing activities.

(e) Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Cash consideration	750	—
Cash at bank and in hand disposed of	(84)	—
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	666	—



31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(f) Analysis of changes in financing

	Convertible notes HK\$'000	Share capital (including premium) HK\$'000	Finance lease obligations HK\$'000	Bank and other loans (excluding overdrafts) HK\$'000	Total HK\$'000
At 1 June 1999	–	33,164	20,577	48,874	102,615
Exercise of share options	–	12,960	–	–	12,960
Rights issue	–	64,086	–	–	64,086
Share issue expenses	–	(2,678)	–	–	(2,678)
New loans raised	–	–	–	56,245	56,245
Repayment of loans	–	–	–	(28,590)	(28,590)
Repayment of capital element of finance leases and hire purchase contracts	–	–	(13,476)	–	(13,476)
Issue of convertible notes, net of expenses	23,305	–	–	–	23,305
Non-cash items:					
Issue of new shares in exchange for property interests	–	41,080	–	–	41,080
Shares issued pursuant to scrip dividend scheme	–	5,645	–	–	5,645
Inception of finance leases	–	–	9,853	–	9,853
Amortisation of expenses in connection with issue of convertible notes	32	–	–	–	32
At 31 May 2000	23,337	154,257	16,954	76,529	271,077





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31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(f) Analysis of changes in financing (Cont'd)

	Convertible notes HK\$'000	Share capital (including premium) HK\$'000	Finance lease obligations HK\$'000	Bank and other loans (excluding overdrafts) HK\$'000	Total HK\$'000
At 1 June 2000	23,337	154,257	16,954	76,529	271,077
Share issue at premium	–	8,320	–	–	8,320
Share issue expenses	–	(179)	–	–	(179)
Repayment of loans	–	–	–	(46,408)	(46,408)
New loans raised	–	–	–	69,591	69,591
Repayment of capital element of finance leases and hire purchase contracts	–	–	(12,098)	–	(12,098)
Issue of convertible notes, net of expenses	9,446	–	–	–	9,446
Non-cash items:					
Inception of finance leases	–	–	10,951	–	10,951
Amortisation of expenses in connection with issue of convertible notes	752	–	–	–	752
Amortisation of premium on convertible notes	288	–	–	–	288
Shares issued for acquisition of a subsidiary (note 31(b))	–	4,400	–	–	4,400
Shares issued upon conversion of convertible notes (note 27(a))	(24,000)	24,000	–	–	–
<b>At 31 May 2001</b>	<b>9,823</b>	<b>190,798</b>	<b>15,807</b>	<b>99,712</b>	<b>316,140</b>



### 32. COMMITMENTS

At 31 May 2001, the Group had commitments under operating leases to make payments in the next year as follows:

The Group	Properties	
	2001 HK\$'000	2000 HK\$'000
Leases expiring		
Within 1 year	–	64
After 1 year but within 2 years	1,606	–
After 2 years but within 5 years	–	–
	<b>1,606</b>	<b>64</b>

### 33. CONTINGENT LIABILITIES AND OUTSTANDING LITIGATION

- (a) At 31 May 2001 a developer had launched arbitration proceedings against the Group whereby the developer claimed a sum of approximately HK\$3,200,000 (2000: HK\$3,200,000) for breach of the construction contract and other relief. No provision on the above has been made as the directors considered that no material loss will be incurred as a result of such proceedings.
- (b) On 8 January 2001 Orient Shipping NV (“OSNV”) commenced proceedings in Hong Kong against Finestyle Wood Industrial Company Limited (“FWI”), a wholly owned subsidiary, claiming a sum of HK\$3,491,000. OSNV alleged that OSNV had entered into an agreement with FWI in connection with delivery of FWI’s timber but FWI had refused to pay additional freight costs of HK\$954,000. FWI and OSNV are seeking arbitration in the High Court. FWI has placed a deposit of US\$200,000 with its solicitor under an Escrow Agreement. On 21 January 2001 the arbitrators issued the First Partial Final Award and FWI had to pay freight costs of HK\$2,544,000 and costs of the award of HK\$39,000 to OSNV. The said sum of HK\$2,583,000 together with interest payable thereon has been settled. OSNV has further proceeded with arbitration seeking inter alia payment of further freight costs and damages for breach of the agreement. The case is currently pending. In the opinion of the directors, sufficient provision has already been made in the accounts.
- (c) At 31 May 2001 the Group had contingent liabilities in respect of performance bonds not provided for amounting to HK\$5,665,000 (2000: HK\$6,158,000).



### 33. CONTINGENT LIABILITIES AND OUTSTANDING LITIGATION (Cont'd)

- (d) On 27 August 2001 litigation was commenced by Dah Sing Bank Limited against Luen Cheong Tai Construction Company Limited ("LCTC") (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the failure to repay the outstanding obligation under finance leases plus interest and costs, totalling HK\$621,000. The outstanding obligation under these finance leases were secured by a corporate guarantee provided by the Company and the machinery under this finance lease. On 22 October 2001 judgement was given by the High Court that the Company and LCTC have to pay the above sum.
- (e) On 30 August 2001 litigation was commenced by Hua Chiao Commercial Bank Limited against Finestyle Wood Industrial Company Limited (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the alleged failure to repay the principal amount of loans plus interest and costs, totalling HK\$3,425,000. The loan was secured by a corporate guarantee provided by the Company and a fixed deposit.
- (f) On 3 September 2001 litigation was commenced by China International Water & Electronic Corporation ("CIWEC") against the Company for the failure to repay the principal amount due to CIWEC plus interest and costs, totalling HK\$7,378,000. On 22 October 2001 judgement was given by the High Court that the Company has to pay the above sum.
- (g) On 10 September 2001 litigation was commenced by East Asia Credit Company Limited against Luen Cheong Tai Construction Company Limited ("LCTC") (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the alleged failure to repay the principal amount of loan plus interest and costs, totalling HK\$4,721,000. The loan was secured by a corporate guarantee provided by the Company. On 30 April 2002 judgement was given by the High Court that the Company and LCTC have to pay the above sum.
- (h) On 25 September 2001 litigation was commenced by Wing Hang Finance Company Limited against Luen Cheong Tai Construction Company Limited (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the alleged failure to repay the outstanding obligation under a finance lease plus interest and costs, totalling HK\$1,352,000. The outstanding obligation under this finance lease was secured by a corporate guarantee provided by the Company and the machinery under this finance lease.



### 33. CONTINGENT LIABILITIES AND OUTSTANDING LITIGATION (Cont'd)

- (i) On 4 October 2001 litigation was commenced by GE Capital (Hong Kong) Limited against Finestyle Maritime Services Limited (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the alleged failure to repay the outstanding obligation under a finance lease plus interest and costs, totalling HK\$2,140,000. The outstanding obligation under this finance lease was secured by a corporate guarantee provided by the Company and the vessel under this finance lease.
- (j) On 15 October 2001 litigation was commenced by Jian Sing Bank Limited against Luen Cheong Tai Construction Company Limited (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the alleged failure to repay the outstanding trust receipt loans plus interest and costs, totalling HK\$4,706,000. The loans were secured by a corporate guarantee provided by the Company.
- (k) On 11 January 2002 litigation was commenced by the Bank of East Asia Limited against Luen Cheong Tai Construction Company Limited (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the alleged failure to repay the outstanding trust receipt loans plus interest and costs, totalling HK\$4,600,000. The loans were secured by a corporate guarantee provided by the Company.
- (l) On 18 February 2002, a winding-up petition was commenced by Hennabun Resources Limited against Luen Cheong Tai Construction Company Limited (as borrower), a wholly owned subsidiary, for the alleged failure to repay a loan plus interest and costs totalling HK\$12,250,000.
- (m) On 15 May 2002 litigation was commenced by Get Nice Finance Company Limited against the Company (as borrower) for the alleged failure to repay a loan plus interest and costs, totalling HK\$6,000,000 borrowed in July 2001.
- (n) On 24 May 2002 a winding-up petition was commenced by Winfast Engineering Limited ("Winfast") against Luen Cheong Tai Construction Company Limited, a wholly owned subsidiary, for the alleged failure to repay the amount due to Winfast, totalling HK\$15,266,000.



### 33. CONTINGENT LIABILITIES AND OUTSTANDING LITIGATION *(Cont'd)*

- (o) On 3 June 2002 a winding-up petition was commenced by Showa Leasing (Hong Kong) Limited against Finestyle Maritime Services Limited (as borrower), a wholly owned subsidiary, Luen Cheong Tai Construction Company Limited (as guarantor), a wholly owned subsidiary, and the Company (as guarantor) for the alleged failure to repay outstanding obligations under finance leases and mortgage loans plus interest and costs totalling HK\$3,979,000. The outstanding obligations under these finance leases were secured by a corporate guarantee provided by the Company and vessels under these finance leases.
- (p) In addition to the above, and in the normal course of business, the Group has received claims for damages and injuries. No provision has been made for these claims as they are either covered by insurance or will be indemnified by other parties.

The directors, after having obtained legal advice, are of the opinion that no significant liability would arise for which additional provision should be made in the accounts.



### 34. MATERIAL RELATED PARTY TRANSACTIONS

- (a) The following material transactions with related parties were in the opinion of the directors carried out in the ordinary course of business:

The Group	Note	2001 HK\$'000	2000 HK\$'000
Rental of machinery receivable from * Jilin Jitai Industrial Company Limited	(i) & (ii)	–	17,000
Rental of machinery payable to * Well-Joint Machinery Company Limited	(ii)	420	–
Handling fees payable to * Well-Joint Machinery Company Limited	(i) & (iii)	–	406
Rental of land and buildings payable to * Winmost Investments Limited	(i) & (ii)	384	768
Contract revenue receivable from Winfast Engineering Limited	(iv)	120,284	69,564
Purchase of a subsidiary * Luen Cheong Holdings Limited	(v)	–	971
Purchase of investment properties and car parks from Tonlok Limited	(vi)	–	44,195

\* These are companies in which Mr. Chan Man Chuen and Mr. Vong Pak Cheong, directors of the Company, have a beneficial interest.



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#### 34. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

(a) (Cont'd)

Notes:

- (i) These constitute connected transactions under the Listing Rules. The Company has been granted a waiver of these transactions for a period of three years commencing from the date of listing of the Company's shares from compliance with the relevant requirements of the Listing Rules for connected transactions.
- (ii) Rentals of machinery, land and buildings payable to/receivable from related companies were charged at the prevailing market rates.
- (iii) Handling fees payable to the related company in respect of acquisition of construction machinery and materials were charged at a range of 3 per cent to 10 per cent of the transaction amount.
- (iv) This is a company owned by Asia Standard International Group Limited, Asia Standard International Limited, Asia Standard Development (Holdings) Limited and Richcorp Investments Holdings Limited, which are deemed to have interests in the Company through the shares held by Tonlok Limited, a shareholder of the Company. The contract revenues were received in accordance with the terms and conditions of the underlying agreement dated 10 July 1999. Further details of the transaction were set out in the Company's announcement dated 24 September 1999.
- (v) The subsidiary was purchased based on its net asset value at the date of acquisition.
- (vi) This is a shareholder of the Company. The above purchases were settled by the allotment and issue of 40,000,000 new shares of the Company at an issue price of HK\$1.027 for each share plus cash payment of HK\$3,115,000.
- (vii) The directors (including the independent non-executive directors) consider that the above transactions were concluded after arm's length negotiation and the terms of the transactions were fair and reasonable.



#### 34. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

(b) Outstanding balances due from related companies as at 31 May 2001:

The Group	2001 HK\$'000	2000 HK\$'000
Jilin Jitai Industrial Company Limited (notes (i), (iii) and (iv))	–	25,300
Winfast Engineering Limited (notes (ii) and (iii))	1,493	26,316
	<b>1,493</b>	<b>51,616</b>

Notes:

- (i) These are companies in which the directors, Mr. Chan Man Chuen and Mr. Vong Pak Cheong, have beneficial interests. The amounts due from these related companies were unsecured, interest free and had no fixed repayment terms.
- (ii) Winfast Engineering Limited is a fellow subsidiary of Tonlok Limited, a major shareholder of the Company. The balance was unsecured, interest free and had no fixed repayment terms.
- (iii) All of the above balances are trading in nature.
- (iv) During the year the balance of HK\$25,300,000 due from Jilin Jitai Industrial Company Limited was assigned to an independent third party.





### 35. POST BALANCE SHEET EVENTS

#### (a) Share options

On 1 June 2001, 29,650,000 share options were granted to certain directors of the Group under the Share Option Scheme adopted by the Company on 7 November 1998. These share options are exercisable for period from the date of share options granted to 6 November 2008 for the holders thereof to subscribe for ordinary shares of HK\$0.1 each of the Company at a subscription price of HK\$0.16 per share.

#### (b) Acquisition of a subsidiary

On 5 February 2002, the Group acquired 100% of the issued share capital of Sky Glory Holdings Limited, a company incorporated in Hong Kong, at a consideration of HK\$14,000,000 satisfied by the issue and allotment of the Company's 87,500,000 new shares at HK\$0.16 per share.

### 36. COMPARATIVE FIGURES

Certain comparative figures in respect of the following items have been reclassified in order to conform with the presentation of the current year:

- other operating expenses;
- trade and other receivables;
- trade and other payables;
- bank and other loans; and
- obligations under finance leases.



### 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The subsidiaries of the Company which principally affected the results, assets or liabilities of the Group as at 31 May 2001 are set out below:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage holding
Shares held directly:				
Luen Cheong Tai (BVI) Limited	British Virgin Islands	Investment holding in the British Virgin Islands and Hong Kong	20,000 ordinary shares of US\$1 each	100
Shares held indirectly:				
Finestyle Maritime Services Limited	Hong Kong	Vessels and machinery owning and leasing in Hong Kong and the People's Republic of China	2 ordinary shares of HK\$1 each and 1,000,020 non-voting deferred shares of HK\$1 each	100
Luen Cheong Tai Construction Company Limited	Hong Kong	Construction work in Hong Kong and the People's Republic of China	2 ordinary shares of HK\$100 each and 100,020 non-voting deferred shares of HK\$100 each	100
Luen Cheong Tai Engineering Limited	British Virgin Islands	Investment holding in the British Virgin Islands, Hong Kong and the Republic of Suriname	1 ordinary share of US\$1 each	100



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37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage holding
Multi-business Enterprises Limited	British Virgin Islands	Dormant	1 ordinary share of US\$1 each	100
MicTech International Corp.	British Virgin Islands	Investment holding in the British Virgin Islands	1 ordinary share of US\$1 each	100
*Finestyle Investments Suriname N.V.	The Republic of Suriname	Logging operations and holding concession rights in the Republic of Suriname	100 ordinary shares of SRG10,000 each	100
Luen Cheong Investment Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100
*i. solution Inc.	British Virgin Islands	Saw mill operation in the Republic of Suriname	1 ordinary share of US\$1 each	100
Urban Edge Services Limited	British Virgin Islands	On-line commerce and related services (website) in Hong Kong	1 ordinary share of US\$1 each	100



37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage holding
Hardmeadow Services Limited	British Virgin Islands	On-line commerce and related services (website) in Hong Kong	1 ordinary share of US\$1 each	100
Gonhaven Services Limited	British Virgin Islands	On-line commerce and related services (website) in Hong Kong	1 ordinary share of US\$1 each	100
Glo-mat.com Inc.	British Virgin Islands	On-line commerce and related services in Hong Kong	1 ordinary share of US\$1 each	100
Finestyle Wood Industrial Company Limited	Hong Kong	Trading of wood and building materials in the People's Republic of China	100 ordinary shares of HK\$1 each	100



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37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage holding
Best Era Investment Limited	Hong Kong	Property holding in Hong Kong	2 ordinary shares of HK\$1 each	100
Glory Hero Investment Limited	Hong Kong	Property holding in Hong Kong	2 ordinary shares of HK\$1 each	100
Gold Crown Development Limited	Hong Kong	Property holding in Hong Kong	2 ordinary shares of HK\$1 each	100
Golden Voyage Industrial Limited	Hong Kong	Property holding in Hong Kong	2 ordinary shares of HK\$1 each	100
Good Scene (Hong Kong) Limited	Hong Kong	Property holding in Hong Kong	2 ordinary shares of HK\$1 each	100
Henful Investments Limited	Hong Kong	Property holding in Hong Kong	2 ordinary shares of HK\$1 each	100
Vaton Enterprises Limited	Hong Kong	Property holding in Hong Kong	2 ordinary shares of HK\$1 each	100

\* Companies not audited by RSM Nelson Wheeler