

# NOTES TO THE FINANCIAL STATEMENTS

31st March, 2002

## 1. CORPORATE INFORMATION

The registered office and the principal place of business of the Company is located at 18th Floor, Hang Seng Building, 77 Des Voeux Road Central, Hong Kong.

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

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

SSAP 9 (Revised)	:	“Events after the balance sheet date”
SSAP 14 (Revised)	:	“Leases”
SSAP 18 (Revised)	:	“Revenue”
SSAP 26	:	“Segment reporting”
SSAP 28	:	“Provisions, contingent liabilities and contingent assets”
SSAP 29	:	“Intangible assets”
SSAP 30	:	“Business combinations”
SSAP 31	:	“Impairment of assets”
SSAP 32	:	“Consolidated financial statements and accounting for investments in subsidiaries”
Interpretation 12	:	“Business combinations – subsequent adjustment of fair values and goodwill initially reported”
Interpretation 13	:	“Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of the new SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact is that a proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The adoption of this revised SSAP has had no impact on the financial statements as there was no final dividend proposed for the years reported.

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)*

31st March, 2002

**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)** *(Continued)*

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 30 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of the SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The effect of the adoption of this SSAP and Interpretation is explained in the “Goodwill” accounting policy in note 3 and in note 28.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and short term investments, as further explained below.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st March, 2002, together with the Group's share of the post-acquisition results of its jointly-controlled entities and associates on the basis as set out below. The results of subsidiaries, jointly-controlled entities and associates acquired or disposed of during the year are consolidated or equity accounted for from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**Subsidiaries**

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

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

**Joint venture companies**

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

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

#### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

#### **Associates**

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

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

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

#### **Goodwill**

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Goodwill** *(Continued)*

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1st April, 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**Impairment of assets**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Fixed assets and depreciation**

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

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

Leasehold land and buildings	5% or over the unexpired terms of the leases
Leasehold improvements	5% and 20%
Furniture and equipment	20%

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

**Properties under development**

Properties under development are stated at cost and include the cost of land, construction, financing and other related expenses, less any impairment losses.

**Investment properties**

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

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Short term investments**

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

**Properties held for sale**

Properties held for sale, consisting of completed properties and properties under development in respect of which the Group has undertaken pre-sale programmes, are classified under current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions, on an individual property basis.

Profit arising on the pre-sale of properties under development is recognised over the course of the development and is calculated on each project as a proportion of the total estimated profit to completion, after taking into account further costs to completion. The proportion used is the estimated construction costs of pre-sold units over the total estimated construction costs of the property under development. The profit per pre-sold unit so recognised is restricted to the amount of instalments received and receivable under legally binding contracts at the balance sheet date.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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.

**Convertible guaranteed bonds**

Convertible guaranteed bonds are stated at cost, and are adjusted for the accretion of premiums on redemption on a straight-line basis over the period of the bonds' existence.

**Deferred charges**

Deferred charges relating to expenses incurred for bond issues are deferred and amortised, using the straight-line method, over the period of the bonds' existence.

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)*

31st March, 2002

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Revenue recognition**

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

- (a) income from the sale of completed properties is recognised when a legally binding sale and purchase contract is signed. Income from the pre-sale of properties under development is recognised over the course of development (as more fully described under “Properties held for sale”);
- (b) rentals receivable from land and buildings held for use under operating leases are accounted for on a straight-line basis over the respective periods of the leases;
- (c) property management income is recognised in the period in which services are rendered;
- (d) interest is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividends are recognised when the shareholders’ right to receive payment has been established.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees. The MPF Scheme became effective on 1st December, 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Deferred tax**

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

**Foreign currencies**

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

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

With respect to investments in certain overseas subsidiaries which are financed by way of loans that are not repayable in the foreseeable future, rather than equity, the resulting exchange differences on translation are included in the exchange fluctuation reserve. In the opinion of the directors, such loans are for practical purposes as permanent as equity and, accordingly, are treated as part of the Company's net investment in the enterprises.

**Related parties**

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

**Cash equivalents**

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

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

### 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Under SSAP 26, segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the property development segment is a property developer;
- (b) the property investment segment is a holder of investment properties and let out for the generation of rental income;
- (c) the property management segment is a service provider in providing property management services; and
- (d) the financing activities segment provides mortgage services.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

During the current and prior years, there were no intersegment transactions.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 4. SEGMENT INFORMATION (Continued)

## (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Property development		Property investment		Property management		Financing activities		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	<u>585,149</u>	<u>277,318</u>	<u>44,319</u>	<u>34,256</u>	<u>3,674</u>	<u>3,664</u>	<u>738</u>	<u>1,093</u>	<u>6,151</u>	<u>6,160</u>	<u>640,031</u>	<u>322,491</u>
Segment results	<u>55,382</u>	<u>(262,703)</u>	<u>32,138</u>	<u>(70,165)</u>	<u>107</u>	<u>770</u>	<u>460</u>	<u>801</u>	<u>2,595</u>	<u>2,598</u>	<u>90,682</u>	<u>(328,699)</u>
Interest and investment income											2,212	9,110
Unallocated gains											5,586	487
Unallocated expenses											(26,188)	(64,193)
Profit/(loss) from operating activities											72,292	(383,295)
Gain on disposals of interests in subsidiaries											-	108,459
Gain on disposal of a jointly-controlled entity											-	11,330
Interest expenses											(44,921)	(59,760)
Amortisation of bond issue expenses											(1,299)	-
Share of profits less losses of jointly-controlled entities	4,642	(73,973)	-	-	-	-	-	-	(67)	1,797	4,575	(72,176)
Profit/(loss) before tax											30,647	(395,442)
Tax											(13,186)	(1,339)
Profit/(loss) before minority interests											17,461	(396,781)
Minority interests											(14,305)	(320)
Net profit/(loss) from ordinary activities attributable to shareholders											<u>3,156</u>	<u>(397,101)</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 4. SEGMENT INFORMATION (Continued)

## (a) Business segments (Continued)

	Property development		Property investment		Property management	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<b>1,785,024</b>	1,848,742	<b>898,084</b>	895,678	<b>3,874</b>	4,051
Interests in jointly-controlled entities	<b>33,802</b>	33,385	-	-	-	-
Interests in associates	<b>14,857</b>	14,857	-	-	-	-
Unallocated assets	-	-	<b>247</b>	789	<b>30</b>	-
Total assets						
Segment liabilities	<b>1,385,068</b>	1,389,962	<b>525,646</b>	799,503	<b>2,675</b>	2,634
Unallocated liabilities	<b>709,647</b>	966,198	<b>508,594</b>	360,555	-	24
Total liabilities						
Other segment information:						
Depreciation and amortisation	<b>4,129</b>	3,608	<b>1,309</b>	14	<b>62</b>	7
Impairment losses recognised in the profit and loss account	-	188,000	-	-	-	-
Revaluation (surplus)/deficit	-	-	<b>(2,431)</b>	90,854	-	-
Other non-cash expenses/(gain)	<b>75</b>	-	<b>191</b>	(61)	-	-
Capital expenditure	<b>715</b>	487	<b>9</b>	1	<b>186</b>	25

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

Financing activities		Others		Eliminations		Consolidated	
2002	2001	2002	2001	2002	2001	2002	2001
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
18,006	17,532	1,887,639	2,196,444	(1,847,285)	(2,110,066)	2,745,342	2,852,381
-	-	-	-	-	-	33,802	33,385
-	-	-	-	-	-	14,857	14,857
40	34	5	7,455	-	-	322	8,278
						<u>2,794,323</u>	<u>2,908,901</u>
7,223	7,223	21,613	23,961	(1,847,285)	(2,110,066)	94,940	113,217
7,207	7,015	178,464	169,634	-	-	1,403,912	1,503,426
						<u>1,498,852</u>	<u>1,616,643</u>
-	-	1,407	2,154	-	-	6,907	5,783
-	-	-	-	-	-	-	188,000
-	-	-	-	-	-	(2,431)	90,854
-	-	-	-	-	-	266	(61)
-	-	231	5,684	-	-	1,141	6,197

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 4. SEGMENT INFORMATION (Continued)

## (b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Mainland China		Malaysia		Canada		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	<u>281,854</u>	<u>224,714</u>	<u>341,690</u>	<u>80,943</u>	<u>11,405</u>	<u>11,891</u>	<u>5,082</u>	<u>4,943</u>	<u>-</u>	<u>-</u>	<u>640,031</u>	<u>322,491</u>
Segment results	<u>(2,232)</u>	<u>(327,337)</u>	<u>85,445</u>	<u>2,697</u>	<u>5,862</u>	<u>(5,430)</u>	<u>1,607</u>	<u>1,371</u>	<u>-</u>	<u>-</u>	<u>90,682</u>	<u>(328,699)</u>
Other segment information:												
Segment assets	2,400,010	2,573,077	581,714	535,876	215,542	215,583	99,946	92,066	(551,870)	(564,221)	2,745,342	2,852,381
Capital expenditure	249	5,709	883	487	9	1	-	-	-	-	1,141	6,197

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 5. TURNOVER AND OTHER REVENUE

Turnover represents income from the sale of properties, gross rental income earned, property management income and interest income from mortgages.

An analysis of turnover and other revenue is as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>		
Sale of properties	585,149	277,318
Gross rental income	50,470	40,416
Property management income	3,674	3,664
Interest income from mortgages	738	1,093
	<u>640,031</u>	<u>322,491</u>
<b>Other revenue</b>		
Interest income from bank deposits	2,212	7,764
Income from unlisted long term investments	–	1,346
Gain on disposal of listed short term investment	3,798	–
Gain on repurchase of convertible guaranteed bonds	–	2,454
Others	4,734	2,778
	<u>10,744</u>	<u>14,342</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 6. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group had transactions with companies in which James Sai-Wing Wong, Madeline May-Lung Wong, William Chung-Yue Fan and Herman Man-Hei Fung, directors of the Company, had beneficial interests. The significant transactions are summarised below.

		Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Construction costs paid to related companies	(i)	55,125	86,493
Management fees paid to a related company	(ii)	–	6,000
Legal and professional fees paid to a solicitor's firm in which a director of the Company is a consultant	(iii)	<u>957</u>	<u>2,264</u>

## Notes:

- (i) Construction costs paid to related companies were agreed on an individual contract basis between the respective parties. Such costs were negotiated and charged on bases similar to those under contracts with third parties.
- (ii) Last year's management fees were based on the underlying costs incurred by the related company.
- (iii) The directors consider that the provision of legal and professional services was made according to the standard prices and conditions similar to those offered to other clients of the solicitor's firm.
- (b) In April, 2001, the Group issued 10% convertible guaranteed bonds due April, 2003 with a principal sum of HK\$300 million (the "B Bonds"). Chinney Investments, Limited ("Chinney Investments"), as a substantial shareholder, and Patrick Yen-Tse Tsai, as a director, subscribed for the B Bonds in the principal amount of HK\$141 million and HK\$2 million respectively. The subscriptions together with the Group's repurchase of the principal amount of US\$5,625,000 of the 5.3% convertible guaranteed bonds due July, 2001 held by Chinney Investments were approved by the independent shareholders of the Company on 9th April, 2001. The B Bonds were issued and allotted to Chinney Investments and Patrick Yen-Tse Tsai under the same terms and conditions as other independent bondholders.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**6. RELATED PARTY TRANSACTIONS** *(Continued)*

- (c) In May, 2001, the Group obtained bank loan facilities of HK\$150 million through cash collaterals provided by Lucky Year Finance Limited (“Lucky Year”), a substantial shareholder of the Company. In consideration of Lucky Year’s provision of the cash security, the Group agreed to pay a commission of 1.75% per annum on the average principal amount of the cash security outstanding during the term of the bank loans to Lucky Year and counter-indemnify Lucky Year in respect of the cash security. As security for the counter-indemnity, the Group mortgaged the entire issued share capital of two of its subsidiaries and assigned shareholders’ loans in an aggregate amount of HK\$220,245,000 to Lucky Year. The connected financing arrangement was approved by the independent shareholders of the Company on 28th June, 2001.
- (d) The balances with the related companies are unsecured, interest-free, and have no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

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

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Auditors' remuneration	1,063	1,196
Depreciation	2,118	2,653
Minimum lease payments under operating leases on land and buildings	2,605	2,707
Provision/(write back of provision) against rental receivables	266	(61)
Deficit/(surplus) on revaluation of investment properties*	(2,431)	90,854
Impairment of properties held for sale*	–	188,000
Staff costs (including directors' remuneration – note 9):		
Salaries and bonuses	14,700	22,772
Pension scheme contributions	959	1,256
Less: Forfeited contributions utilised	–	(282)
	<u>959</u>	<u>974</u>
	<u>15,659</u>	<u>23,746</u>
Gross rental income	(50,470)	(40,416)
Less: Outgoing expenses	16,187	15,873
	<u>(34,283)</u>	<u>(24,543)</u>
Loss on disposal of fixed assets	–	2,636
Exchange losses, net	–	20,491

At the balance sheet date, the amount of forfeited pension contributions available for future utilisation was not significant.

\* The deficit/(surplus) on revaluation of investment properties and impairment of properties held for sale is included in "Other operating income/(expenses), net" on the face of the consolidated profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 8. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	(33,302)	(72,181)
Bank loans wholly repayable after five years	(18,282)	–
Convertible guaranteed bonds	(33,832)	(33,266)
Bank overdrafts	(43)	(82)
	<u>(85,459)</u>	<u>(105,529)</u>
Less: Amounts capitalised under property development projects	<u>40,538</u>	<u>45,769</u>
	<u>(44,921)</u>	<u>(59,760)</u>
Accretion of convertible bond premium on redemption	(3,776)	(14,440)
Less: Amounts capitalised under property development projects	<u>3,776</u>	<u>14,440</u>
	<u>–</u>	<u>–</u>
Amortisation of bond issue expenses	(4,789)	(3,130)
Less: Amounts capitalised under property development projects	<u>3,490</u>	<u>3,130</u>
	<u>(1,299)</u>	<u>–</u>
Total finance costs	<u><u>(46,220)</u></u>	<u><u>(59,760)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 9. DIRECTORS' REMUNERATION

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	100	100
Salaries, allowances and benefits in kind	2,340	2,340
Pension scheme contributions	162	162
	<u>2,602</u>	<u>2,602</u>

Included in the above were the following payments to independent non-executive directors:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	<u>100</u>	<u>100</u>

The remuneration of the above directors fell within the following bands:

	Number of directors	
	2002	2001
Nil	4	4
HK\$1 – HK\$1,000,000	2	2
HK\$2,500,001 – HK\$3,000,000	1	1
	<u>7</u>	<u>7</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year included one (2001: one) director, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining four (2001: four) non-director, highest paid employees are set out below:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>3,581</b>	5,567
Pension scheme contributions	<b>247</b>	298
	<u><b>3,828</b></u>	<u>5,865</u>

The remuneration of the above non-director, highest paid employees fell within the following bands:

	<b>Number of individuals</b>	
	<b>2002</b>	2001
Nil – HK\$1,000,000	<b>2</b>	–
HK\$1,000,001 – HK\$1,500,000	<b>2</b>	2
HK\$1,500,001 – HK\$2,000,000	<b>–</b>	2
	<u><b>4</b></u>	<u>4</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

**11. TAX**

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Tax on the profits of subsidiaries operating outside Hong Kong has been calculated at the rates of tax prevailing in their respective jurisdictions.

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Group:		
Hong Kong	<b>(48)</b>	(93)
Elsewhere	<b>(13,138)</b>	(729)
	<b>(13,186)</b>	(822)
Jointly-controlled entities in Hong Kong	–	(517)
Tax charge for the year	<b>(13,186)</b>	(1,339)

Deferred tax has not been provided as there were no significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes at the balance sheet date. The revaluation of the Group's properties is not considered to be a timing difference.

A deferred tax asset of HK\$78,602,000 (2001: HK\$68,185,000), related primarily to the Group's unutilised tax losses, has not been recognised in the financial statements.

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

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$714,000 (2001: net loss of HK\$254,044,000).

**13. EARNINGS/(LOSS) PER SHARE**

The calculation of the basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders of HK\$3,156,000 (2001: net loss of HK\$397,101,000) and on 1,334,154,019 (2001: weighted average of 1,334,149,660) shares of the Company in issue during the year.

The diluted earnings per share for the year ended 31st March, 2002 has not been shown as all convertible guaranteed bonds and share options outstanding during the year had an anti-dilutive effect on the basic earnings per share for the year (2001: anti-dilutive impact on the basic loss per share).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 14. FIXED ASSETS

## Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1st April, 2001	2,531	5,634	8,229	16,394
Additions	—	398	743	1,141
<b>At 31st March, 2002</b>	<b>2,531</b>	<b>6,032</b>	<b>8,972</b>	<b>17,535</b>
Accumulated depreciation:				
At 1st April, 2001	161	3,645	5,390	9,196
Provided during the year	114	959	1,045	2,118
<b>At 31st March, 2002</b>	<b>275</b>	<b>4,604</b>	<b>6,435</b>	<b>11,314</b>
Net book value:				
<b>At 31st March, 2002</b>	<b>2,256</b>	<b>1,428</b>	<b>2,537</b>	<b>6,221</b>
At 31st March, 2001	2,370	1,989	2,839	7,198

The leasehold land and buildings are situated in The People's Republic of China and are held under long term leases.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 14. FIXED ASSETS (Continued)

## Company

	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1st April, 2001	5,347	5,595	10,942
Additions	–	63	63
<b>At 31st March, 2002</b>	<b>5,347</b>	<b>5,658</b>	<b>11,005</b>
Accumulated depreciation:			
At 1st April, 2001	3,431	4,116	7,547
Provided during the year	792	535	1,327
<b>At 31st March, 2002</b>	<b>4,223</b>	<b>4,651</b>	<b>8,874</b>
Net book value:			
<b>At 31st March, 2002</b>	<b>1,124</b>	<b>1,007</b>	<b>2,131</b>
At 31st March, 2001	1,916	1,479	3,395

## 15. PROPERTIES UNDER DEVELOPMENT

## Group

	2001 <i>HK\$'000</i>	Additions <i>HK\$'000</i>	Reclassified to properties held for sale <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At cost	625,176	–	(178,079)	447,097
Development expenditure	332,498	140,601	(195,625)	277,474
	<u>957,674</u>	<u>140,601</u>	<u>(373,704)</u>	<u>724,571</u>

The additions to development expenditure included interest expenses and other borrowing costs totalling HK\$42,047,000 (2001: HK\$46,000,000) incurred and capitalised during the year.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 15. PROPERTIES UNDER DEVELOPMENT (Continued)

Details of the properties under development are as follows:

	2002 HK\$'000	2001 HK\$'000
Medium term leases:		
Hong Kong	286,356	568,048
The People's Republic of China	339,638	299,020
Freehold property in Canada	98,577	90,606
	<u>724,571</u>	<u>957,674</u>

Certain of the Group's properties under development were pledged to the Group's bankers to secure the banking facilities detailed in note 25.

## 16. INVESTMENT PROPERTIES

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1st April	888,150	1,150,300
Additions, at cost	2,569	26,704
Disposal during the year	–	(198,000)
Revaluation surplus/(deficit) arising during the year	2,431	(90,854)
	<u>893,150</u>	<u>888,150</u>
At 31st March, at valuation	<u>893,150</u>	<u>888,150</u>
Analysis by type and location:		
Long term leasehold land and buildings in Hong Kong	500,000	495,000
Medium term leasehold land and buildings in Hong Kong	180,000	180,000
Freehold land and buildings in Malaysia	213,150	213,150
	<u>893,150</u>	<u>888,150</u>

At the balance sheet date, all of the investment properties were revalued on the basis of their open market values by Knight Frank or Henry Butcher, Lim & Long Sdn. Bhd. (chartered surveyors). The investment properties are leased to third parties under operating leases, further summary details of which are included in note 30 to the financial statements.

All the Group's investment properties were pledged to the Group's bankers to secure the banking facilities detailed in note 25.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	8	23
Due from subsidiaries	2,563,518	2,537,581
Provision for impairment	(297,137)	(253,821)
	<u>2,266,389</u>	<u>2,283,783</u>
Due to subsidiaries	(926,214)	(1,046,387)
	<u>1,340,175</u>	<u>1,237,396</u>

The amounts due from/(to) subsidiaries are unsecured, interest-free, and have no fixed terms of repayment, except for an amount due from a subsidiary of HK\$162,166,000 (2001: HK\$156,837,000) which is not repayable in the foreseeable future.

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore, the following list contains only the particulars of subsidiaries which materially affected the results or assets and liabilities of the Group.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Champion Fine International Investment Limited*	British Virgin Islands	US\$1	–	100	Investment holding
Champion Fine International Investments Inc.*	Canada	C\$1	–	100	Property development
Chinney Property Management Limited	Hong Kong	HK\$100	–	100	Property management

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cosmos Star Development Limited	Hong Kong	HK\$100	–	55	Property development
Cosmos Wealth Development Limited	Hong Kong	HK\$1,000	–	100	Property development
Crown Honour Developments Limited	Hong Kong	HK\$2	100	–	Financing and nominee services
Debest Development Limited	Hong Kong	HK\$2	–	100	Property development
Eagle Strong Company Limited	Hong Kong	HK\$10	–	100	Property development
Golden Country Development Limited	Hong Kong	HK\$2	–	100	Property development
Hon Cheong Limited	Hong Kong	HK\$2	–	100	Property development
Hon Kwok Land Capital Limited	British Virgin Islands	US\$1	100	–	Financing
Hon Kwok Land Investment (China) Limited	Hong Kong	HK\$2	100	–	Investment holding
Hon Kwok Land Investment (Shenzhen) Co., Ltd.*	The People's Republic of China	HK\$30,000,000	–	100	Property development
Hon Kwok Land Treasury II Limited	British Virgin Islands	US\$1	100	–	Financing
Hon Kwok Project Management Limited	Hong Kong	HK\$2	100	–	Project management

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Honbest Investment Limited	Hong Kong	HK\$2	–	100	Property development
Honour Well Development Limited	Hong Kong	HK\$2	–	100	Property holding and letting
Kensen Properties Limited	Hong Kong	HK\$100	–	55	Property development
King Champion Limited	Hong Kong	HK\$2	–	100	Property holding and letting
Nanhai Xin Da Real Estate Development Co., Ltd.*	The People's Republic of China	HK\$90,480,000	–	80	Property development
Pacific Corporate Services Limited	Hong Kong	HK\$2	100	–	Provision of corporate services
Prime Best Development Limited	Hong Kong	HK\$2	–	100	Property development
Rich Winner Development Limited	Hong Kong	HK\$100	–	55	Property development
Shenzhen Honkwok Huaye Development Co., Ltd.*	The People's Republic of China	RMB30,000,000	–	80	Property development
Spark Eagle Development Limited	Hong Kong	HK\$2	100	–	Property holding and letting
Star World Property Limited	Hong Kong	HK\$2	–	100	Property development
Sunny Land Sdn Bhd	Malaysia	M\$2	100	–	Property management

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Victory Venture Development Limited	Hong Kong	HK\$2	–	100	Property development
Wide Fame Investment Limited	Hong Kong	HK\$2	–	100	Property development
Wise Pacific Investment Limited	Hong Kong	HK\$10,000	–	60	Money lending

\* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

The subsidiaries operate in their place of incorporation/registration, except for Spark Eagle Development Limited which operates in Malaysia.

Except for Hon Kwok Land Capital Limited and Hon Kwok Land Treasury II Limited, none of the subsidiaries had any loan capital outstanding at the balance sheet date or at any time during the year.

The subsidiaries disposed of during the current and prior years did not have any significant impact on the Group's turnover and results.

The entire issued share capital in Champion Fine International Investment Limited and Spark Eagle Development Limited were pledged to Lucky Year, a substantial shareholder of the Company, as a counter-indemnity for certain banking facilities detailed in note 25.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

Share of profits less losses of jointly-controlled entities:

	Group	
	2002 HK\$'000	2001 HK\$'000
Operating profits/(losses)	4,575	(48,676)
Impairment of properties under development	–	(14,500)
Impairment of properties held for sale	–	(9,000)
	<u>4,575</u>	<u>(72,176)</u>

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	–	–	–	–
Share of net assets less liabilities, other than goodwill	<u>(98,350)</u>	<u>(102,925)</u>	–	–
	<b>(98,350)</b>	<b>(102,925)</b>	–	–
Due from jointly-controlled entities, net	<u>132,152</u>	<u>136,310</u>	<u>3,873</u>	<u>3,873</u>
	<u><b>33,802</b></u>	<u><b>33,385</b></u>	<u><b>3,873</b></u>	<u><b>3,873</b></u>

The Group's share of the post-acquisition accumulated losses of the jointly-controlled entities at 31st March, 2002 was HK\$143,345,000 (2001: HK\$147,920,000).

The amounts due from the jointly-controlled entities are unsecured, interest-free, and have no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Cenford Investments Limited	Corporate	Hong Kong	50	50	50	Property development
Global Wealth Development Limited	Corporate	Hong Kong	50	50	50	Property development
Hunnewell Limited	Corporate	Hong Kong	50	50	50	Property development
King Success Limited	Corporate	Hong Kong	50	50	50	Property development

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

Extracts of the financial statements as at 31st March, 2002 of the above principal jointly-controlled entities are as follows:

	2002 HK\$'000	2001 HK\$'000
<b>Cenford Investments Limited</b>		
Current assets	492	104,683
Current liabilities	(7,248)	(94,601)
Non-current liabilities	(122,888)	(141,401)
Income	91,625	392,473
Impairment of properties held for sale	–	(11,000)
Net profit/(loss) for the year	<u>1,674</u>	<u>(92,085)</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

	2002 HK\$'000	2001 HK\$'000
<b>Global Wealth Development Limited</b>		
Current assets	2,580	10,177
Current liabilities	(7,778)	(12,299)
Non-current liabilities	(11,080)	(21,414)
Income	8,500	10,528
Impairment of properties held for sale	–	(7,000)
Net profit/(loss) for the year	<u>4,257</u>	<u>(7,600)</u>
<b>Hunnewell Limited</b>		
Non-current assets	9,567	11,176
Current assets	10,224	9,234
Current liabilities	(1,386)	(1,827)
Income	1,448	22,974
Net loss for the year	<u>(177)</u>	<u>(9,698)</u>
<b>King Success Limited*</b>		
Non-current assets	–	117,974
Current assets	74,923	1,227
Current liabilities	(30)	(31)
Non-current liabilities	(125,909)	(173,928)
Income	124,652	9
Impairment of properties under development	–	(29,000)
Net profit/(loss) for the year	<u>3,741</u>	<u>(28,957)</u>

\* The financial year end of this company is 31st December



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 19. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	–	–
Share of net assets	6,156	6,156
Due from associate	8,701	8,701
	<u>14,857</u>	<u>14,857</u>

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

Particulars of the associate are as follows:

Name	Business structure	Place of registration and operation	Percentage of ownership interest attributable to the Group	Principal activities
Guangzhou Li Du Property Development Co., Ltd.	Corporate	The People's Republic of China	49	Property development

## 20. PROPERTIES HELD FOR SALE

The carrying amount of properties held for sale carried at net realisable value is HK\$759,439,000 (2001: HK\$630,139,000).

Properties held for sale included interest expenses and other borrowing costs totalling HK\$5,757,000 (2001: HK\$17,339,000) incurred and capitalised during the year.

Certain of the Group's properties held for sale were pledged to the Group's bankers to secure the banking facilities detailed in note 25.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 21. SHORT TERM INVESTMENT

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2001</b>
		<b>HK\$'000</b>
Listed equity investment in Hong Kong, at market value	—	7,455

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables are trade receivables of HK\$40,935,000 (2001: HK\$16,282,000). An aged analysis of trade receivables is as follows:

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2001</b>
		<b>HK\$'000</b>
Current to 30 days	39,270	15,201
31-60 days	589	417
61-90 days	428	266
Over 90 days	648	398
Total	<b>40,935</b>	16,282

Monthly rent in respect of leased properties is payable in advance by the tenants pursuant to the terms of the tenancy agreements. The balance of consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreements. Overdue trade debts are followed up closely by management and provided in full in case of non-recoverability.

The Company had no trade receivables included in prepayments, deposits and other receivables.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

**23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Included in accounts payable and accrued liabilities are trade payables of HK\$18,036,000 (2001: HK\$2,272,000). An aged analysis of trade payables is as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>18,036</b>	2,272

The Company had no trade payables included in accounts payable and accrued liabilities.

**24. CONVERTIBLE GUARANTEED BONDS**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
At 1st April	<b>496,176</b>	860,968
Issue of B Bonds	<b>300,000</b>	–
Accretion of premium on redemption	<b>3,776</b>	14,440
Repurchase of bonds	<b>(66,536)</b>	(109,902)
Redemption of bonds upon maturity	<b>(433,416)</b>	(277,914)
Currency realignment	–	8,584
At 31st March	<b>300,000</b>	496,176
Analysis of convertible guaranteed bonds:		
Due 2001	–	496,176
Due 2003	<b>300,000</b>	–
	<b>300,000</b>	496,176
Portion classified as current liabilities	–	(496,176)
Non-current portion	<b>300,000</b>	–

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**24. CONVERTIBLE GUARANTEED BONDS** *(Continued)***(a) 5.30% convertible guaranteed bonds due 2001 (the "A Bonds")**

On 5th July, 1996, the Group, through a wholly-owned subsidiary, issued A Bonds, which were listed in Luxembourg, with a principal sum of US\$55,000,000. An option to subscribe for an additional US\$5,000,000 bonds was exercised by the managers of the bond issue on 11th July, 1996, thus aggregating the principal sum of A Bonds to US\$60,000,000. The A Bonds were unconditionally and irrevocably guaranteed by the Company and bore interest at the rate of 5.30% per annum. The bondholders had the right, at any time on or after 5th September, 1996, up to and including 21st June, 2001, to convert the A Bonds into equity shares of the Company with a nominal value of HK\$0.10 (2001: HK\$0.10) at a conversion price, subject to adjustment in certain events, of HK\$2.44 (2001: HK\$2.44) per share, with a fixed rate of exchange of US\$1 to HK\$7.7415.

During the year, the Group repurchased a total nominal amount of US\$7,325,000 of the A Bonds at premiums ranging from 16.36% to 17.20%. The remaining outstanding principal of US\$47,090,000 A Bonds was redeemed at 118% of their principal amount on 5th July, 2001.

**(b) 10% convertible guaranteed bonds due 2003 (the "B Bonds")**

On 18th April, 2001, the Group, through another wholly-owned subsidiary, issued unlisted B Bonds with a principal sum of HK\$300 million. The B Bonds are unconditionally and irrevocably guaranteed by the Company and bear interest at the rate of 10% per annum. The bondholders have the right, at any time on or after 18th April, 2001, up to and including 19th March, 2003, to convert the B Bonds into equity shares of the Company with a nominal value of HK\$0.10 at a conversion price, subject to adjustment in certain events, of HK\$0.40 per share.

Unless previously purchased and cancelled, redeemed or converted, the B Bonds are to be redeemed at 100% of their principal amount on 18th April, 2003. The exercise in full of the conversion rights of the outstanding principal of HK\$300,000,000 B Bonds by the bondholders would have, under the present share structure of the Company as at the balance sheet date, resulted in the issue of an additional 750,000,000 new shares of HK\$0.10 each. No exercise of the conversion rights was made during the year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 25. INTEREST-BEARING BANK LOANS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans:				
Secured	984,134	903,456	150,000	38,000
Unsecured	20,000	40,000	20,000	40,000
	<u>1,004,134</u>	<u>943,456</u>	<u>170,000</u>	<u>78,000</u>
Bank loans repayable:				
Within one year or on demand	450,803	383,193	20,000	78,000
In the second year	182,066	208,682	150,000	—
In the third to fifth years, inclusive	108,765	351,581	—	—
Beyond five years	262,500	—	—	—
	<u>1,004,134</u>	<u>943,456</u>	<u>170,000</u>	<u>78,000</u>
Portion classified as current liabilities	<u>(450,803)</u>	<u>(383,193)</u>	<u>(20,000)</u>	<u>(78,000)</u>
Non-current portion	<u>553,331</u>	<u>560,263</u>	<u>150,000</u>	<u>—</u>

Certain bank loans are secured by mortgages on certain investment properties, properties under development and properties held for sale, with a carrying value of approximately HK\$1,907 million (2001: HK\$2,080 million), and assignments of rental income. In addition, certain other bank loans are secured by time deposits of the Group amounting to HK\$25 million (2001: HK\$38 million) and cash deposits provided by a substantial shareholder of the Company.

Irrevocable and unconditional guarantees have been given by the Company in respect of certain subsidiaries' borrowings. In addition, the Company has subordinated its loans to certain subsidiaries in favour of the relevant lending banks.

## 26. LOANS FROM MINORITY INTERESTS

The amounts due to minority shareholders of subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 27. SHARE CAPITAL

## Shares

	Company	
	2002 HK\$'000	2001 HK\$'000
<b>Authorised:</b>		
17,500,000,000 shares of HK\$0.10 each	<u>1,750,000</u>	<u>1,750,000</u>
<b>Issued and fully paid:</b>		
1,334,154,019 shares of HK\$0.10 each	<u>133,415</u>	<u>133,415</u>

Pursuant to a court order dated 17th October, 2000, the nominal value of the shares of the Company was adjusted from HK\$0.50 to HK\$0.10 by way of capital reduction. The authorised share capital of the Company was restored to the original amount of HK\$1,750,000,000 by the creation of an additional 14,000,000,000 new shares of HK\$0.10 each.

As a result of the capital reduction, a credit of HK\$533,658,876.40 based on the 1,334,147,191 shares of the Company then in issue was transferred from the share capital account to a special capital reserve account. The Company has undertaken that the special capital reserve:

- (a) shall not be treated as realised profit; and
- (b) shall, for so long as the Company remains a listed company (as defined in the Companies Ordinance), be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance or any statutory re-enactment or modification thereof

provided always that the amount standing to the credit of the special capital reserve may be reduced by (i) the aggregate of any increase in the issued capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration; or (ii) upon a capitalisation of distributable reserves after the capital reduction.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**27. SHARE CAPITAL** *(Continued)***Warrants**

On 15th October, 1999, a bonus issue of 242,820,245 warrants on the basis of one warrant for every five shares held on 15th October, 1999 was approved by the shareholders of the Company. The warrants were exercisable at any time from 28th October, 1999 to 27th October, 2000, both dates inclusive, at an initial subscription price of HK\$0.61 per share (subject to adjustment).

Last year, the Company received subscription monies amounting to approximately HK\$4,740 converting 7,770 warrants into 7,770 new shares of the Company. The remaining 242,767,452 warrants were unexercised and lapsed on 28th October, 2000.

**Share options**

The Company operates a share option scheme, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 20 and 21.

Pursuant to the Company's share option scheme, the outstanding share options granted as at 31st March, 2002 were 12,000,000 (2001: 12,000,000). The options entitle the holder to subscribe for 12,000,000 shares in the Company and are exercisable at a price of HK\$0.70 per share (subject to adjustment). Unless otherwise exercised, these options will lapse on 16th March, 2003. No options were exercised during the year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 28. RESERVES

## Group

	Share premium account HK\$'000	Special capital reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2000	126,624	-	(29,551)	10	(72,933)	977,786	1,001,936
Arising on reduction of share capital	-	533,659	-	-	-	-	533,659
Arising on consolidation	-	-	-	-	(9,174)	-	(9,174)
Arising on the exercise of subscription rights of warrants	4	-	-	-	-	-	4
Issue of shares of a subsidiary	-	-	3,500	-	-	-	3,500
Disposals of subsidiaries	-	-	(3,500)	-	-	-	(3,500)
Disposal of a jointly-controlled entity	-	-	29,519	-	-	-	29,519
Loss for the year	-	-	-	-	-	(397,101)	(397,101)
At 31st March, 2001 and 1st April, 2001	126,628	533,659	(32)	10	(82,107)	580,685	1,158,843
Impairment loss of goodwill arising from subsidiaries acquired in prior years	-	-	32	-	-	-	32
Arising on consolidation	-	-	-	-	25	-	25
Profit for the year	-	-	-	-	-	3,156	3,156
<b>At 31st March, 2002</b>	<b>126,628</b>	<b>533,659</b>	<b>-</b>	<b>10</b>	<b>(82,082)</b>	<b>583,841</b>	<b>1,162,056</b>
<b>Reserves retained by:</b>							
Company and subsidiaries	126,628	533,659	-	10	(82,082)	715,450	1,293,665
Jointly-controlled entities	-	-	-	-	-	(143,345)	(143,345)
Minority interests	-	-	-	-	-	11,736	11,736
<b>At 31st March, 2002</b>	<b>126,628</b>	<b>533,659</b>	<b>-</b>	<b>10</b>	<b>(82,082)</b>	<b>583,841</b>	<b>1,162,056</b>
Company and subsidiaries	126,628	533,659	(32)	10	(82,107)	731,174	1,309,332
Jointly-controlled entities	-	-	-	-	-	(147,920)	(147,920)
Minority interests	-	-	-	-	-	(2,569)	(2,569)
At 31st March, 2001	126,628	533,659	(32)	10	(82,107)	580,685	1,158,843



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 28. RESERVES (Continued)

## Company

	Share premium account HK\$'000	Special capital reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2000	126,624	–	647	10	667,487	794,768
Arising on reduction of share capital	–	533,659	–	–	–	533,659
Arising on the exercise of subscription rights of warrants	4	–	–	–	–	4
Loss for the year	–	–	–	–	(254,044)	(254,044)
At 31st March, 2001 and 1st April, 2001	126,628	533,659	647	10	413,443	1,074,387
Profit for the year	–	–	–	–	714	714
<b>At 31st March, 2002</b>	<b>126,628</b>	<b>533,659</b>	<b>647</b>	<b>10</b>	<b>414,157</b>	<b>1,075,101</b>

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill/negative goodwill in respect of acquisitions which occurred prior to 1st April, 2001, to remain eliminated against/credited to consolidated reserves.

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. Following this assessment, the directors are of the opinion that the goodwill previously included in capital reserve is fully impaired, as detailed below.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**28. RESERVES** *(Continued)*

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries, are as follows:

**Group**

	<b>Goodwill included in capital reserve</b> <i>HK\$'000</i>
Cost:	
At 1st April, 2001 and 31st March, 2002	(32)
Accumulated impairment:	
At 1st April, 2001	–
Impairment provided during the year	32
	<hr/>
<b>At 31st March, 2002</b>	<b>32</b>
	<hr/>
Net amount:	
<b>At 31st March, 2002</b>	<b>–</b>
	<hr/> <hr/>
At 31st March, 2001	(32)
	<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit/(loss) from operating activities	72,292	(383,295)
Depreciation	2,118	2,653
Interest income	(2,212)	(7,764)
Income from unlisted long term investments	–	(1,346)
Impairment loss of goodwill arising from subsidiaries acquired in prior years	32	–
Gain on repurchase of convertible guaranteed bonds	–	(2,454)
Gain on disposal of listed short term investment	(3,798)	–
Loss on disposal of fixed assets	–	2,636
Deficit/(surplus) on revaluation of investment properties	(2,431)	90,854
Impairment of properties held for sale	–	188,000
Provision/(write back of provision) against rental receivables	266	(61)
Decrease in an amount due from a related company	–	2,040
Decrease in properties held for sale	318,091	151,763
Decrease/(increase) in prepayments, deposits and other receivables	(18,064)	10,320
Increase/(decrease) in accounts payable and accrued liabilities	(20,899)	20,366
Decrease in customer deposits	(1,829)	(1,466)
Exchange differences	25	8,946
	<hr/>	<hr/>
Net cash inflow from operating activities	<b>343,591</b>	<b>81,192</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	Issued capital (including share premium account and special capital reserve) HK\$'000	Loans and convertible guaranteed bonds HK\$'000	Minority interests HK\$'000
At 1st April, 2000	793,697	1,961,831	2,730
Cash inflow from exercise of subscription rights of warrants	5	–	–
Cash outflow from financing activities, net	–	(491,417)	–
Accretion of convertible bond premium on redemption	–	14,440	–
Gain on repurchase of convertible guaranteed bonds	–	(2,454)	–
Currency realignment	–	9,137	–
Share of profits for the year	–	–	320
	<hr/>	<hr/>	<hr/>
At 31st March, 2001 and 1st April, 2001	793,702	1,491,537	3,050
Cash outflow from financing activities, net	–	(141,524)	–
Bond issue expenses	–	8,411	–
Accretion of convertible bond premium on redemption	–	3,776	–
Share of profits for the year	–	–	14,305
	<hr/>	<hr/>	<hr/>
<b>At 31st March, 2002</b>	<b>793,702</b>	<b>1,362,200</b>	<b>17,355</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

## 30. OPERATING LEASE ARRANGEMENTS

## (a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one month to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31st March, 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	23,393	23,981
In the second to fifth years, inclusive	10,044	15,936
	<u>33,437</u>	<u>39,917</u>

## (b) As lessee

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31st March, 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	2,582	2,931	2,423	1,441
In the second to fifth years, inclusive	3,864	793	3,864	—
	<u>6,446</u>	<u>3,724</u>	<u>6,287</u>	<u>1,441</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

31st March, 2002

**30. OPERATING LEASE ARRANGEMENTS (Continued)**

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

There are no amounts relating to jointly-controlled entities included in the above annual commitments under non-cancellable operating leases in respect of land and buildings (2001: Nil).

**31. CAPITAL COMMITMENTS**

In addition to the operating lease commitments detailed in note 30 above, the Group had authorised and contracted capital commitments in respect of property development expenditure amounting to approximately HK\$227,916,000 (2001: HK\$260,940,000) at the balance sheet date.

Authorised and contracted capital commitments in respect of property development expenditure relating to jointly-controlled entities included in the above amounted to approximately HK\$5,622,000 (2001: HK\$26,788,000).

At the balance sheet date, the Group had no commitments in respect of foreign exchange contracts (2001: one such contract amounting to HK\$436,700,000). The Company had no commitments in respect of foreign exchange contracts at the balance sheet date (2001: Nil).

**32. CONTINGENT LIABILITIES**

(a)

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Extent of general bank facilities guaranteed by the Group/ Company utilised at the balance sheet date by:				
– subsidiaries	–	–	834,134	865,456
– jointly-controlled entities	–	66,455	–	66,455
	–	66,455	834,134	931,911

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31st March, 2002

**32. CONTINGENT LIABILITIES** *(Continued)*

- (b) On 20th April, 1996, a writ was filed against a wholly-owned subsidiary of the Group, Joint Peace Investment Limited ("Joint Peace"), regarding an alleged disparity between the pavement and the ground floor level of the building at 18-22 Percival Street, junction of Jaffe Road, Causeway Bay, Hong Kong. The amount claimed, excluding minor construction and related costs, was either HK\$41,000,000 or HK\$69,300,000, representing the claim for loss of rental income or loss of interest on the purchase price, over a period of 12 months. A defence to contest this claim was filed on 22nd July, 1996.

On 2nd December, 1997, the plaintiff of this claim was allowed to amend the Writ of Summons and the Statement of Claim dated 20th April, 1996. Under advice by its solicitors, an Amended Defence in respect thereof was filed by Joint Peace on 30th December, 1997. On the same date, a Request for Further and Better Particulars of the Amended Statement of Claim was sent by Joint Peace's solicitors to the plaintiff's solicitors.

Following consultation with its legal advisers (in their capacity as the legal advisers of Joint Peace), the directors formed the view that the amended claim was unlikely to succeed and were therefore of the opinion that no provision regarding this claim is necessary in the Group's financial statements. There has been no further progress of the claim so far up to the date of this report.

**33. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

**34. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 11th July, 2002.