

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- property development
- property investment
- provision of property management services

In the opinion of the directors, the ultimate holding company of the Company is Coastal International Holdings Limited, which is incorporated in the British Virgin Islands.

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 those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

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, and 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 32 to the financial statements.

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

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 this 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 and negative goodwill in the non-current assets section of the 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, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. The adoption of the SSAP and Interpretation 13 has not resulted in a prior year adjustment, for the reasons detailed in note 29 to the financial statements. The required new additional disclosures are included in note 29 to the financial statements.

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, certain properties held for development and certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

The Company's 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 and "properties under development for sale";
- (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.

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.

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

Jointly-controlled entities *(Continued)*

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. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. 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.

Negative goodwill

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

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

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

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

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

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

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.

Fixed assets and depreciation

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

Changes in the values of leasehold land and buildings are dealt with as movements in the land and buildings revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

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

| | |
|--|--|
| Leasehold land | Over the remaining terms of the leases, including renewal periods |
| Buildings | 2% to 5% |
| Leasehold improvements | 20% |
| Furniture, fixtures and office equipment | 20% |
| Motor vehicles | 20% |

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

Investment properties

Investment properties are interests in land and 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 values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Properties under development and properties under development for sale

Properties under development, for which pre-sales have not yet commenced, are stated at cost less any impairment losses. Cost includes all costs attributable to such developments, including financial charges.

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

Properties under development and properties under development for sale *(Continued)*

Properties under development which have been pre-sold are stated at cost plus attributable profits less sales deposits/instalments received and receivable and any foreseeable losses. Properties under development which have been pre-sold and in respect of which occupation permits are expected to be granted within one year from the balance sheet date are classified under current assets.

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on properties pre-sold during the accounting period is calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to completion, limited to the amount of sales deposits/instalments received, with due allowances for contingencies.

Properties held for development

Properties held for development are stated at cost or at carrying value, being the valuation made by independent professional qualified valuers as at 31 March 1995 on an open market basis, less any impairment losses.

No further revaluations of the properties held for development have been carried out since 1995, as the Group has relied upon the exemption granted under the transitional provisions of SSAP 17 "Property, plant and equipment" (issued in 1995), from the requirements to carry out future revaluations of its properties held for development which were stated at valuation at that time.

For properties held for development received in exchange for previously-held properties held for development, their fair value at the date of exchange is treated as the cost of acquisition.

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and building costs attributable to unsold properties. Net realisable value is estimated by the directors based on prevailing market prices, on an individual property basis.

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

Leased assets

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

Long term investment

A long term investment which is intended to be held on a continuing basis is stated at cost less any impairment losses on an individual investment basis.

When an impairment in value has occurred, the carrying amount of the security is reduced to its fair value, as estimated by the directors, and the amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to an impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Deferred tax

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

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. Foreign currency translation differences on borrowings relating to the development of properties are capitalised during the development period. All other exchange differences are dealt with in the profit and loss account.

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

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

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. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate for the year is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

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) from the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;
- (b) from the pre-sale of properties under development, when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out under the accounting policy headed "Properties under development and properties under development for sale";
- (c) rental income, in the period in which the properties are let out on the straight-line basis over the lease terms;
- (d) property management income, when the related management services are provided; and
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme has operated since 1 December 2001. 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 Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

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

Retirement benefits scheme *(Continued)*

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 8% – 25.5% of their payroll costs to the central pension scheme.

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 represent assets which are not restricted as to use.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 engages in the construction of properties in the PRC;
- (b) the property investment segment invests in commercial and residential properties located in the PRC for their rental income potential;
- (c) the property management segment engages in the management of properties in the PRC; and
- (d) the corporate and other segment mainly engages in investment holding.

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.

4. SEGMENT INFORMATION (Continued)**(a) Business segments**

The following table presents revenue and profit/(loss) for the Group's business segments.

| | Property development | | Property investment | | Property management | | Corporate and Other | | Consolidated | |
|--|----------------------|----------|---------------------|----------|---------------------|----------|---------------------|----------|------------------|----------|
| | 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 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 179,574 | 316,574 | 21,110 | 37,718 | 1,312 | 1,270 | - | - | 201,996 | 355,562 |
| Segment results | (448,302) | (64,335) | 1,780 | 17,197 | 548 | 481 | (28,042) | (19,117) | (474,016) | (65,774) |
| Interest income | | | | | | | | | 157 | 164 |
| Loss from operating activities | | | | | | | | | (473,859) | (65,610) |
| Finance costs | | | | | | | | | (17,900) | (27,094) |
| Share of profits and losses of jointly-controlled entities | (22) | 2 | - | - | (2,340) | (35) | - | - | (2,362) | (33) |
| Loss before tax | | | | | | | | | (494,121) | (92,737) |
| Tax | | | | | | | | | (5,345) | 1,471 |
| Loss before minority interests | | | | | | | | | (499,466) | (91,266) |
| Minority interests | | | | | | | | | (41) | (2,062) |
| Net loss from ordinary activities attributable to shareholders | | | | | | | | | (499,507) | (93,328) |

4. SEGMENT INFORMATION (Continued)**(a) Business segments** (Continued)

The following table presents certain asset, liability and expenditure information for the Group's business segments.

| | Property development | | Property investment | | Property management | | Corporate and Other | | Consolidated | |
|---|----------------------|-----------|---------------------|----------|---------------------|----------|---------------------|----------|------------------|-----------|
| | 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 |
| Segment assets | 2,183,197 | 2,488,197 | 383,434 | 384,821 | 8,333 | 10,790 | (122) | 58,998 | 2,574,842 | 2,942,806 |
| Interests in jointly-controlled entities | 517 | (5,542) | - | (3,717) | - | - | (4,633) | 9,297 | (4,116) | 38 |
| Unallocated assets | | | | | | | | | 560 | 560 |
| Bank overdrafts included in segments assets | - | - | - | - | - | - | 9,141 | 9,325 | 9,141 | 9,325 |
| Total assets | | | | | | | | | 2,580,427 | 2,952,729 |
| Segment liabilities | 360,527 | 389,915 | 56,248 | 34,842 | 2,363 | 2,843 | 2,865 | 4,318 | 422,003 | 431,918 |
| Unallocated liabilities | | | | | | | | | 666,569 | 597,457 |
| Bank overdrafts included in segments assets | - | - | - | - | - | - | 9,141 | 9,325 | 9,141 | 9,325 |
| Total liabilities | | | | | | | | | 1,097,713 | 1,038,700 |
| Other segment information: | | | | | | | | | | |
| Depreciation | 610 | 1,995 | 2,310 | 542 | 5 | 3 | 609 | 1,487 | 3,534 | 4,027 |
| Provision for impairment of properties held for development | 379,649 | - | - | - | - | - | - | - | 379,649 | - |
| Provision for impairment of properties under development | 94,686 | 10,701 | - | - | - | - | - | - | 94,686 | 10,701 |
| Provision for impairment of completed properties for sale | 36,000 | 30,698 | - | - | - | - | - | - | 36,000 | 30,698 |
| Reduction in land grant fees upon exchange of properties held for development | (63,649) | - | - | - | - | - | - | - | (63,649) | - |
| Provision for land appreciation tax | 1,560 | 6,000 | - | - | - | - | - | - | 1,560 | 6,000 |
| Provisions for doubtful debts | 715 | 14,980 | - | - | - | - | - | - | 715 | 14,980 |
| Loss on disposal of fixed assets | 6 | - | - | - | - | - | 104 | 79 | 110 | 79 |
| Loss on disposal of an investment property | - | - | - | - | - | - | 7,716 | - | 7,716 | - |
| Capital expenditure | 9,495 | 2,234 | 163 | 103 | 15 | 17 | 2,543 | 974 | 12,216 | 3,328 |

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

| Group | Hong Kong | | Elsewhere in the PRC | | Corporate and Other | | 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 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 65 | 471 | 201,772 | 354,288 | 159 | 803 | 201,996 | 355,562 |
| Segment results* | (13,387) | (4,605) | (446,625) | (48,068) | (14,004) | (13,101) | (474,016) | (65,774) |
| Other segment information: | | | | | | | | |
| Segment assets | 229 | 17,992 | 2,573,266 | 2,875,377 | (2,209) | 50,035 | 2,571,286 | 2,943,404 |
| Bank overdrafts included in segment assets | - | - | - | - | 9,141 | 9,325 | 9,141 | 9,325 |
| | | | | | | | 2,580,427 | 2,952,729 |
| Capital expenditure | 31 | - | 9,673 | 2,354 | 2,512 | 974 | 12,216 | 3,328 |

* disclosed pursuant to the requirements of the Listing Rules.

5. TURNOVER

Turnover represents gross proceeds, net of returns, from the sale of properties and pre-sale of properties under development, adjusted to reflect the progress of the development, together with gross rental income and property management income.

Included in the Group's turnover is revenue arising from the following activities:

| | 2002 | Group |
|----------------------------|-------------------|-------------------|
| | HK\$'000 | 2001 |
| | <u> </u> | <u>HK\$'000</u> |
| Sale of properties | 179,574 | 316,574 |
| Gross rental income | 21,110 | 37,718 |
| Property management income | 1,312 | 1,270 |
| | <u> </u> | <u> </u> |
| | 201,996 | 355,562 |
| | <u> </u> | <u> </u> |

6. LOSS FROM OPERATING ACTIVITIES

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

| | 2002 | Group |
|---|-------------------|-------------------|
| | HK\$'000 | 2001 |
| | <u> </u> | <u>HK\$'000</u> |
| Cost of properties for sale sold | 175,770 | 297,938 |
| Depreciation | 3,973 | 4,758 |
| Less: Amounts capitalised in properties under development | (439) | (731) |
| | <u> </u> | <u> </u> |
| | 3,534 | 4,027 |
| | <u> </u> | <u> </u> |
| Minimum lease payments under operating leases for land and buildings | 1,344 | 262 |
| Less: Amounts capitalised in properties under development | (71) | (104) |
| | <u> </u> | <u> </u> |
| | 1,273 | 158 |
| | <u> </u> | <u> </u> |

6. LOSS FROM OPERATING ACTIVITIES *(Continued)*

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

| | 2002 | Group |
|---|-----------------|--------------|
| | HK\$'000 | 2001 |
| | HK\$'000 | HK\$'000 |
| Auditors' remuneration | 800 | 750 |
| Staff costs (including directors' remuneration – note 8) | 18,436 | 19,090 |
| Pension scheme contributions | 1,095 | 62 |
| Less: Amounts capitalised in properties under development | (5,020) | (4,592) |
| | 14,511 | 14,560 |
| Provisions for impairment of: | | |
| – properties held for development* (note 16) | 379,649 | – |
| – properties under development* | 94,686 | 10,701 |
| – completed properties for sale** | 36,000 | 30,698 |
| | 510,335 | 41,399 |
| Provision for land appreciation tax* | 1,560 | 6,000 |
| Provisions for doubtful debts* | 715 | 14,980 |
| Loss on disposal of fixed assets (other than investment properties) | 110 | 79 |
| Loss on disposal of an investment property* | 7,716 | – |
| Reduction in land grant fees upon exchange of properties held for development* (note 16) | (63,649) | – |
| Revaluation surplus on leasehold land and buildings | – | (2,167) |
| Interest income | (157) | (164) |
| Exchange gains, net | (1,856) | (1,124) |
| Gross rental income | (21,110) | (37,718) |
| Less: Outgoings | 14,960 | 10,351 |
| Net rental income | (6,150) | (27,367) |

* included in "Other operating expenses, net" on the face of the profit and loss account

** included in "Cost of sales" on the face of the profit and loss account

7. FINANCE COSTS

| | 2002 | Group |
|---|-----------------|------------------|
| | HK\$'000 | 2001 HK\$'000 |
| Interest on bank loans, overdrafts and other loans wholly repayable within five years | 27,206 | 38,416 |
| Interest on other loans | 4,608 | 770 |
| | 31,814 | 39,186 |
| Less: Amounts capitalised in properties under development | (13,914) | (12,092) |
| | 17,900 | 27,094 |

8. DIRECTORS' REMUNERATION

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

| | 2002 | Group |
|---|-----------------|------------------|
| | HK\$'000 | 2001 HK\$'000 |
| Fees: | | |
| Executive directors | - | - |
| Non-executive directors | 90 | 100 |
| Executive directors' other emoluments: | | |
| Basic salaries and bonuses | 5,213 | 5,390 |
| Pension scheme contributions | 60 | 20 |
| Housing benefits, other allowances and benefits in kind | 934 | 1,200 |
| | 6,297 | 6,710 |

The amounts disclosed above include directors' fees of HK\$60,000 (2001: HK\$60,000) payable to the independent non-executive directors.

8. DIRECTORS' REMUNERATION (Continued)

The number of directors whose remuneration fell within the following bands is set out below:

| | Number of directors | |
|-------------------------------|----------------------------|------|
| | 2002 | 2001 |
| Nil – HK\$1,000,000 | 8 | 8 |
| HK\$1,000,001 – HK\$1,500,000 | 2 | 2 |
| HK\$1,500,001 – HK\$2,000,000 | 2 | 2 |
| | 12 | 12 |

All of the executive directors agreed to waive their entitlements to directors' fees totalling HK\$50,000 (2001: HK\$60,000) for the year. Other than this, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value was included in the directors' remuneration in respect of share options granted during the prior year because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted.

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included four (2001: four) directors, details of whose remuneration are set out in note 8 above. The remuneration of the remaining one (2001: one) non-director, highest paid individual fell within the band of HK\$1,000,001 – HK\$1,500,000 (2001: Nil – HK\$1,000,000) and the details were as follows:

| | Group | |
|---------------------------------|-----------------|----------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| Basic salaries and bonus | 1,109 | 440 |
| Contributions to pension scheme | 12 | 4 |
| | 1,121 | 444 |

10. TAX

| | 2002 | Group |
|--------------------------------------|-------------------|-------------------|
| | HK\$'000 | 2001 |
| | <u> </u> | <u> </u> |
| Group: | | |
| Elsewhere | 2,964 | 243 |
| Under/(over)provision in prior years | 2,381 | (1,714) |
| | <u> </u> | <u> </u> |
| Tax charge/(credit) for the year | 5,345 | (1,471) |
| | <u> </u> | <u> </u> |

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the year (2001: Nil).

The Group's profits tax represents tax charges on the assessable profits of subsidiaries operating in the PRC calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's subsidiaries enjoy income tax reductions.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company is approximately HK\$507,993,000 (2001: HK\$430,512,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$499,507,000 (2001: HK\$93,328,000) and the weighted average of 1,003,744,966 (2001: 661,184,000) shares in issue during the year.

As the exercise price of the outstanding share options was higher than the average market price of the Company's shares during the years ended 31 March 2002 and 2001, they exerted no dilution effect on the basic loss per share for the years ended 31 March 2002 and 2001.

13. INTERESTS IN SUBSIDIARIES

| | Company | |
|---------------------------------|---------------------------|------------------|
| | 2002 | 2001 |
| | <u>HK\$'000</u> | <u>HK\$'000</u> |
| Unlisted shares, at cost | 2,409,683 | 2,409,683 |
| Amounts due from subsidiaries | 462,910 | 408,692 |
| | 2,872,593 | 2,818,375 |
| Less: Provisions for impairment | <u>(1,409,798)</u> | <u>(907,585)</u> |
| | <u>1,462,795</u> | <u>1,910,790</u> |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Further particulars of the principal subsidiaries are set out in note 35 to the financial statements.

14. FIXED ASSETS

| Group | Investment | Leasehold | Long term | Leasehold | Furniture, | Motor | Total |
|--------------------------------|----------------|--------------|---------------|---------------|--------------|--------------|----------------|
| | properties | land and | leasehold | improve- | fixtures | vehicles | |
| | Hong Kong | land and | land and | ments | and office | | |
| | HK\$'000 | buildings in | buildings | | equipment | | HK\$'000 |
| | | Hong Kong | in the PRC | | | | |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost or valuation: | | | | | | | |
| At beginning of year | 399,430 | 45,800 | 12,008 | 6,613 | 7,997 | 4,964 | 476,812 |
| Additions | - | - | - | 10,342 | 1,374 | 500 | 12,216 |
| Acquisition of a subsidiary | - | - | - | - | 165 | 617 | 782 |
| Disposals | (17,000) | (41,950) | (308) | (3,553) | (764) | (688) | (64,263) |
| Deficit on revaluation | (2,000) | - | - | - | - | - | (2,000) |
| At 31 March 2002 | 380,430 | 3,850 | 11,700 | 13,402 | 8,772 | 5,393 | 423,547 |
| Accumulated depreciation: | | | | | | | |
| At beginning of year | - | - | 1,003 | 4,356 | 5,499 | 3,203 | 14,061 |
| Provided during the year | - | 77 | 234 | 2,452 | 561 | 649 | 3,973 |
| Acquisition of a subsidiary | - | - | - | - | 41 | 247 | 288 |
| Disposals | - | - | (127) | (2,796) | (572) | (456) | (3,951) |
| At 31 March 2002 | - | 77 | 1,110 | 4,012 | 5,529 | 3,643 | 14,371 |
| Net book value: | | | | | | | |
| At 31 March 2002 | 380,430 | 3,773 | 10,590 | 9,390 | 3,243 | 1,750 | 409,176 |
| At 31 March 2001 | 399,430 | 45,800 | 11,005 | 2,257 | 2,498 | 1,761 | 462,751 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | - | - | - | 13,402 | 8,772 | 5,393 | 27,567 |
| At valuation | 380,430 | 3,850 | 11,700 | - | - | - | 395,980 |
| | 380,430 | 3,850 | 11,700 | 13,402 | 8,772 | 5,393 | 423,547 |

In the opinion of the directors, the fair values of the Group's leasehold land and buildings did not differ materially from the carrying values of the respective assets at the balance sheet date and no further revaluation was therefore performed.

14. FIXED ASSETS *(Continued)*

The leasehold land and buildings in Hong Kong are held under medium term leases as to the amount of approximately HK\$1,050,000 and under long term leases as to the amount of approximately HK\$2,800,000.

Had the Group's total leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$10,597,000 (2001: HK\$46,399,000).

Certain of the Group's leasehold land and buildings with a carrying value of HK\$2,744,000 (2001: HK\$44,750,000) have been pledged to a bank to secure general banking facilities granted to the Group (note 24).

The Group's investment properties are situated in the PRC and are held under the following lease terms:

| | 2002 HK\$'000 |
|--------------------|--------------------------------|
| Medium term leases | 359,000 |
| Long term leases | 21,430 |
| | 380,430 |

All of the Group's investment properties in the PRC were revalued at 31 March 2002 by DTZ Debenham Tie Leung Limited, independent professional valuers, at HK\$380,430,000 on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32 to the financial statements.

Certain investment properties with an aggregate carrying value of HK\$304,697,000 (2001: HK\$214,098,000) have been pledged to banks to secure banking facilities granted to the Group (note 24).

Further particulars of the Group's investment properties are set out on pages 75 and 76.

15. PROPERTIES UNDER DEVELOPMENT

| | 2002 | Group |
|---|------------------|------------------|
| | HK\$'000 | 2001 HK\$'000 |
| At beginning of year | 345,106 | 319,182 |
| Additions | 210,132 | 195,429 |
| Transfer from properties held for development (<i>note 16</i>) | 145,283 | – |
| Attributable profits | 23,066 | – |
| | 723,587 | 514,611 |
| <i>Less:</i> Sales deposits and instalments received | (98,425) | – |
| | 625,162 | 514,611 |
| Provisions for impairment | (94,686) | (10,701) |
| | 530,476 | 503,910 |
| Transfer to completed properties for sale | – | (139,702) |
| Transfer to investment properties | – | (19,102) |
| | 530,476 | 345,106 |
| Portion classified as properties under development for sale under current assets | (423,481) | (282,891) |
| | 106,995 | 62,215 |

The properties under development of the Group are situated in the PRC and are held under medium term leases as to the amount of approximately HK\$90,260,000 and under long term leases as to the amount of approximately HK\$440,216,000.

Certain properties under development with an aggregate carrying value of HK\$342,935,000 (2001: HK\$147,463,000) have been pledged to banks to secure banking facilities granted to the Group (note 24).

Further particulars of the Group's properties under development are set out on page 77.

16. PROPERTIES HELD FOR DEVELOPMENT

| | Group | |
|---|------------------|-----------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| At beginning of year | 1,618,778 | 1,842,458 |
| Additions | 62,480 | 86,488 |
| Acquisition of a subsidiary (note 30(c)) | 106,374 | – |
| Provisions for impairment | (379,649) | (310,168) |
| Transfer to properties under development (note 15) | (145,283) | – |
| Revaluation reserve eliminated upon reclassification to properties under development (note 28) | (782) | – |
| At 31 March | 1,261,918 | 1,618,778 |

The properties held for development of the Group are situated in the PRC and are held under long term leases.

In the prior year, the Group obtained approval from the relevant government authorities for the replacement of certain properties in the PRC held for development as at 31 March 2001, by other properties in the PRC to be held for future development by the Group. The replacement was completed during the current year. As a consequence of this exchange of assets, the attributable revaluation reserve of the properties being replaced, amounting to approximately HK\$1,256,214,000, has been transferred from the properties held for development revaluation reserve to retained profits upon the replacement (note 28). The current year's provision for impairment of the replacement land, amounting to HK\$379,649,000, has therefore been charged to the profit and loss account for the year (note 6). The reduction in the land grant fees payable resulting from the replacement of the properties, amounting to approximately HK\$63,649,000 (note 25), representing the difference between the fees payable for the new properties and the properties being replaced, has been credited to the profit and loss account upon the exchange (note 6).

As at 31 March 2002, the above properties include certain properties held for development amounting to approximately HK\$1,125 million, for which the Group has obtained only provisional land use right certificates. The procedures for the issue of provisional land use rights certificates and full formal land use rights certificates, together with details of the further land grant fees payable to the local government authorities in connection with the land use rights, are set out in note 25 to the financial statements.

Further particulars of the Group's properties held for development are set out on page 78.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

| | 2002 | Group |
|--|-----------------------|-----------------|
| | HK\$'000 | 2001 |
| | <u> </u> | <u>HK\$'000</u> |
| Share of net assets | 6,756 | 9,118 |
| Amounts due from jointly-controlled entities | 1,113 | 786 |
| Amounts due to jointly-controlled entities | (11,985) | (9,866) |
| | <u>(4,116)</u> | <u>38</u> |

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

| Name | Business structure | Place of registration | Group's percentage of | | | Principal activities |
|---|--------------------|-----------------------|-----------------------|--------------|----------------|----------------------|
| | | | Ownership interest | Voting power | Profit sharing | |
| New Shanghai International Property Management Co., Ltd.* | Corporate | PRC | 30% | 43% | 30% | Property management |
| Qingdao Coastal Realty Development Co., Ltd.* | Corporate | PRC | 50% | 25% | 50% | Property development |

* Audited by public accountants other than Ernst & Young.

18. LONG TERM INVESTMENT

| | 2002 | Group |
|------------------------------------|-------------------|-----------------|
| | HK\$'000 | 2001 |
| | <u> </u> | <u>HK\$'000</u> |
| Club membership debenture, at cost | 560 | 560 |

19. PLEDGED DEPOSITS

The balance represents deposits pledged to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group.

20. COMPLETED PROPERTIES FOR SALE

The carrying amount of completed properties for sale carried at net realisable value is HK\$106,223,000 (2001: HK\$101,331,000).

Certain completed properties for sale with an aggregate carrying value of HK\$41,745,000 (2001: HK\$40,826,000) have been pledged to banks and other parties to secure bank and other loans granted to the Group (note 24).

Further particulars of the Group's completed properties for sale are set out on pages 75 to 76.

21. TRADE RECEIVABLES

The Group's credit policy is set on a project-by-project basis taking into account the prevailing market situations for each project.

An aged analysis of the trade receivables, net of provisions for bad and doubtful debts, is as follows:

| | 2002 | | 2001 | |
|--------------|----------------------------|------------|----------------------------|------------|
| | Balance <i>HK\$'000</i> | Percentage | Balance <i>HK\$'000</i> | Percentage |
| 0 – 30 days | 2,430 | 6 | 19,386 | 13 |
| 31 – 60 days | 1,516 | 3 | 6,140 | 4 |
| 61 – 90 days | 1,294 | 3 | 6,202 | 4 |
| Over 90 days | 38,124 | 88 | 116,268 | 79 |
| | 43,364 | 100 | 147,996 | 100 |

22. DUE TO THE ULTIMATE HOLDING COMPANY

Except for an amount of HK\$20,000,000 which is repayable after more than one year, the amount due to the ultimate holding company is unsecured, interest-free and is repayable on demand.

23. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

| | 2002 | | 2001 | |
|--------------|----------------------------|------------|----------------------------|------------|
| | Balance <i>HK\$'000</i> | Percentage | Balance <i>HK\$'000</i> | Percentage |
| 0 – 30 days | 7,578 | 7 | 36,263 | 39 |
| 31 – 60 days | 5,731 | 5 | – | – |
| 61 – 90 days | 368 | – | – | – |
| Over 90 days | 93,570 | 88 | 56,018 | 61 |
| | 107,247 | 100 | 92,281 | 100 |

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 2002 HK\$'000 | Group 2001 <i>HK\$'000</i> |
|---|--------------------------------|---|
| Bank overdrafts: | | |
| Secured | – | 9,325 |
| Unsecured | 9,141 | – |
| | 9,141 | 9,325 |
| Bank loans: | | |
| Secured | 393,616 | 352,001 |
| Unsecured | 65,938 | 19,703 |
| | 459,554 | 371,704 |
| Other loans: | | |
| Secured | 65,985 | 74,350 |
| Unsecured | 14,825 | 15,279 |
| | 80,810 | 89,629 |
| | 549,505 | 470,658 |
| Bank overdrafts repayable within one year or on demand | 9,141 | 9,325 |
| Bank loans repayable: | | |
| Within one year or on demand | 284,702 | 284,927 |
| In the second year | 63,384 | 10,538 |
| In the third to fifth years, inclusive | 111,468 | 75,868 |
| Beyond five years | – | 371 |
| | 459,554 | 371,704 |
| Other loans repayable: | | |
| Within one year | 66,542 | 32,963 |
| In the second year | 558 | 42,257 |
| In the third to fifth years, inclusive | 1,673 | 1,305 |
| Beyond five years | 12,037 | 13,104 |
| | 80,810 | 89,629 |
| | 549,505 | 470,658 |
| Portion classified as current liabilities | (360,385) | (327,215) |
| Long term portion | 189,120 | 143,443 |

24. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

- (a) Certain of the Group's bank loans are secured by:
- (i) certain leasehold land and buildings of the Group with a carrying value at the balance sheet date of approximately HK\$3 million;
 - (ii) certain investment properties of the Group with an aggregate carrying value at the balance sheet date of approximately HK\$305 million;
 - (iii) certain properties under development of the Group with an aggregate carrying value at the balance sheet date of approximately HK\$343 million;
 - (iv) certain completed properties for sale of the Group with an aggregate carrying value at the balance sheet date of approximately HK\$20 million;
 - (v) personal guarantees from two directors and a former director of the Company; and
 - (vi) corporate guarantees from the Company and certain of its subsidiaries.
- (b) Certain other loans are secured by certain completed properties for sale of the Group with an aggregate carrying value of approximately HK\$22 million at the balance sheet date. The other loans bear interest at rates ranging from 5.6% to 6.5% per annum.

25. LONG TERM PAYABLES

| | 2002 | Group |
|--|-----------------------|-----------------------|
| | HK\$'000 | 2001 |
| | <u> </u> | <u> </u> |
| Balance at beginning of year | 227,140 | 178,322 |
| Additions for properties held for development | 24,159 | 48,818 |
| Reclassification to trade payables | (35,803) | – |
| Reduction in land grant fees upon replacement of properties held for development <i>(note 16)</i> | (63,649) | – |
| At 31 March | <u>151,847</u> | <u>227,140</u> |

The long term payables mainly represent land grant fees due in respect of the acquisition of land use rights in the PRC.

25. LONG TERM PAYABLES *(Continued)*

In accordance with the terms of the land use grant agreements and the sale and purchase agreements, the further land grant fee considerations are payable only upon the commencement of development of the relevant projects and according to the progress of the development. Until the land grant fee in respect of a particular site has been fully paid, the Group is only permitted to apply for a provisional land use right certificate, not the formal land use right certificate, for that site and the Group is not allowed to transfer, mortgage or lease the relevant properties in respect of that site without the consent of the local government authorities.

As at 31 March 2002, the Group has obtained only provisional land use right certificates for certain properties held for development amounting to approximately HK\$1,125 million. The balance of the land grant fees in respect of these properties held for development, comprising the long term payable amount above, will not be payable within one year because the Company's directors have confirmed that the development of the relevant projects will not commence within one year from the balance sheet date.

26. DEFERRED TAX

| | Group | |
|--|---------------------|-------------------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| | <u> </u> | <u> </u> |
| Balance at beginning of year and end of year | <u>1,989</u> | <u>1,989</u> |

The provision for deferred tax in the prior year was principally made for the exchange gain arising in a PRC subsidiary.

At the balance sheet date, the Group had an unprovided deferred tax liability of approximately HK\$28 million (2001: HK\$444 million) in respect of the surplus arising from the revaluation of certain investment properties and properties held for development, and an unrecognised deferred tax asset of approximately HK\$5 million (2001: HK\$6 million) in respect of tax losses arising in Hong Kong. The directors are of the opinion that such deferred tax liability will not crystallise in the foreseeable future.

27. SHARE CAPITAL

| | 2002 | 2001 |
|---|------------------------|-----------------|
| | <u>HK\$'000</u> | <u>HK\$'000</u> |
| Shares | | |
| Authorised: | | |
| 1,500,000,000 ordinary shares of HK\$0.10 each | <u>150,000</u> | <u>150,000</u> |
| Issued and fully paid: | | |
| 1,024,000,000 (2001: 640,000,000) ordinary shares of HK\$0.10 each | <u>102,400</u> | <u>64,000</u> |

During the year, a rights issue of three rights shares for every five existing shares then held was made, at an issue price of HK\$0.16 per rights share, resulting in the issue of 384,000,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$61,440,000.

Share options

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

At the beginning of the year, there were 54,600,000 options outstanding under the Scheme, which entitled the holders to subscribe for shares in the Company in tranches during the period from 1 October 2000 to 19 September 2007, as specified in the share option certificates. The subscription price payable upon the exercise of these options was HK\$0.32 per share.

With effect from the completion of the rights issue of shares in the Company during the year as further detailed above, the number of shares to be issued upon the exercise of all outstanding share options was adjusted from 54,600,000 shares to 87,360,000 shares and the exercise price of the share options was adjusted from HK\$0.32 per share to HK\$0.20 per share.

No share options were exercised during the year. A total of 24,640,000 share options lapsed during the year.

At the balance sheet date, the Company had 62,720,000 share options outstanding under the Scheme, with exercise periods ranging from 1 October 2000 to 19 September 2007 and an exercise price of HK\$0.20 per share. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 62,720,000 additional shares of HK\$0.10 each and proceeds of approximately HK\$12,544,000.

28. RESERVES

| Group | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Capital reserve HK\$'000 | Land and buildings revaluation reserve HK\$'000 | Investment properties revaluation reserve HK\$'000 | Properties held for development revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits HK\$'000 | PRC reserve funds (note) HK\$'000 | Total HK\$'000 |
|--|-----------------------------------|---------------------------------|-----------------------------|--|---|---|--|------------------------------|--------------------------------------|-------------------|
| At 1 April 2000 | 289,500 | 131,803 | 1,521 | 3,973 | 102,456 | 1,585,938 | (472) | 161,568 | - | 2,276,287 |
| Capital reserve on acquisition of additional interests in subsidiaries | - | - | 8,331 | - | - | - | - | - | - | 8,331 |
| Surplus/(deficit) on revaluation | - | - | - | 7,078 | (42,352) | - | - | - | - | (35,274) |
| Provisions for impairment of properties held for development (note 16) | - | - | - | - | - | (310,168) | - | - | - | (310,168) |
| Net loss for the year | - | - | - | - | - | - | - | (93,328) | - | (93,328) |
| At 31 March 2001 and beginning of year | 289,500 | 131,803 | 9,852 | 11,051 | 60,104 | 1,275,770 | (472) | 68,240 | - | 1,845,848 |
| Rights issue of shares | 23,040 | - | - | - | - | - | - | - | - | 23,040 |
| Share issue expenses | (1,560) | - | - | - | - | - | - | - | - | (1,560) |
| Revaluation reserve released upon disposal of land and buildings | - | - | - | (5,218) | - | - | - | 5,218 | - | - |
| Deficit on revaluation | - | - | - | - | (2,000) | - | - | - | - | (2,000) |
| Realisation of revaluation deficit upon disposal of an investment property | - | - | - | - | 7,540 | - | - | - | - | 7,540 |
| Revaluation reserve released upon replacement of properties held for development (note 16) | - | - | - | - | - | (1,256,214) | - | 1,256,214 | - | - |
| Revaluation reserve eliminated upon reclassification to properties under development (note 16) | - | - | - | - | - | (782) | - | - | - | (782) |
| Revaluation reserve eliminated shared by minority shareholders upon reclassification to properties under development | - | - | - | - | - | 157 | - | - | - | 157 |
| Net loss for the year | - | - | - | - | - | - | - | (499,507) | - | (499,507) |
| Transfer | - | - | 929 | - | - | - | - | (2,973) | 2,044 | - |
| At 31 March 2002 | 310,980 | 131,803 | 10,781 | 5,833 | 65,644 | 18,931 | (472) | 827,192 | 2,044 | 1,372,736 |
| Reserves retained by: | | | | | | | | | | |
| Company and subsidiaries | 310,980 | 131,803 | 10,781 | 5,833 | 65,644 | 18,931 | (472) | 829,598 | 2,044 | 1,375,142 |
| Jointly-controlled entities | - | - | - | - | - | - | - | (2,406) | - | (2,406) |
| 31 March 2002 | 310,980 | 131,803 | 10,781 | 5,833 | 65,644 | 18,931 | (472) | 827,192 | 2,044 | 1,372,736 |
| Reserves retained by: | | | | | | | | | | |
| Company and subsidiaries | 289,500 | 131,803 | 9,852 | 11,051 | 60,104 | 1,275,770 | (472) | 68,284 | - | 1,845,892 |
| Jointly-controlled entities | - | - | - | - | - | - | - | (44) | - | (44) |
| 31 March 2001 | 289,500 | 131,803 | 9,852 | 11,051 | 60,104 | 1,275,770 | (472) | 68,240 | - | 1,845,848 |

Note: Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to reserve funds which are restricted as to their use.

28. RESERVES (Continued)

| Company | Share premium account <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|--|---------------------------------|
| At 1 April 2000 | 289,500 | 2,409,483 | (422,696) | 2,276,287 |
| Net loss for the year | – | – | (430,512) | (430,512) |
| At 31 March 2001 and beginning of year | 289,500 | 2,409,483 | (853,208) | 1,845,775 |
| Rights issue of shares | 23,040 | – | – | 23,040 |
| Share issue expenses | (1,560) | – | – | (1,560) |
| Net loss for the year | – | – | (507,993) | (507,993) |
| At 31 March 2002 | <u>310,980</u> | <u>2,409,483</u> | <u>(1,361,201)</u> | <u>1,359,262</u> |

The contributed surplus of the Group represents the surpluses arising from the issue of shares by Coastal Realty (BVI) Limited, the intermediate holding company of the Group (i) in the acquisition of Coastal Realty Development Co. Limited, the former holding company of the Group in 1995; and (ii) at a premium to third parties in 1997.

The contributed surplus of the Company arose as a result of the Group reorganisation completed in September 1997 and represents the excess of the then combined net assets of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange therefor.

29. NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits negative goodwill in respect of acquisitions which occurred prior to 1 April 2001, to remain credited to the capital reserve.

The amount of the negative goodwill remaining in consolidated reserves, arising from acquisitions of subsidiaries prior to 1 April 2001, is as follows:

| Group | Negative goodwill credited to consolidated capital reserve |
|--|---|
| | <i>HK\$'000</i> |
| Cost: | |
| At beginning of year and 31 March 2002 | 9,852 |
| Accumulated amortisation: | |
| At beginning of year and 31 March 2002 | – |
| Net amount: | |
| At 31 March 2002 | 9,852 |
| At 31 March 2001 | 9,852 |

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | 2002 | 2001 |
|--|------------------------|-----------------|
| | <u>HK\$'000</u> | <u>HK\$'000</u> |
| Loss from operating activities | (473,859) | (65,610) |
| Interest income | (157) | (164) |
| Depreciation | 3,534 | 4,027 |
| Loss on disposal of fixed assets | 110 | 79 |
| Loss on disposal of an investment property | 7,716 | – |
| Revaluation surplus on leasehold land and buildings | – | (2,167) |
| Provisions for impairment in values of properties held for development, properties under development and completed properties for sale | 510,335 | 41,399 |
| Provisions for doubtful debts | 715 | 14,980 |
| Reduction in land grant fees upon exchange of properties held for development | (63,649) | – |
| Increase in properties under development | (120,420) | (182,606) |
| Increase in properties held for development | (38,321) | (37,670) |
| Decrease/(increase) in trade receivables | 103,917 | (15,966) |
| Decrease in completed properties for sale | 67,923 | 195,232 |
| Decrease/(increase) in prepayments, deposits and other receivables | (14,561) | 26,192 |
| Increase/(decrease) in trade payables | (20,837) | 47,938 |
| Increase/(decrease) in other payables and accruals | (1,176) | 3,051 |
| Increase/(decrease) in deposits received | 18,132 | (1,294) |
| Net cash inflow/(outflow) from operating activities | <u>(20,598)</u> | <u>27,421</u> |

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

| | Issued capital (including share premium) <i>HK\$'000</i> | Bank and other loans <i>HK\$'000</i> | Minority interests <i>HK\$'000</i> | Due to the ultimate holding company <i>HK\$'000</i> |
|---|--|--|--|---|
| At 1 April 2000 | 353,500 | 538,429 | 11,007 | 52,366 |
| Net cash inflow/(outflow) from financing | – | (77,096) | – | 79,405 |
| Share of results for the year | – | – | 2,062 | – |
| Acquisition of additional interests in subsidiaries | – | – | (8,888) | – |
| At 31 March 2001 and 1 April 2001 | 353,500 | 461,333 | 4,181 | 131,771 |
| Net cash inflow/(outflow) from financing | 59,880 | 43,250 | – | (15,184) |
| Acquisition of a subsidiary | – | 35,781 | 3,513 | – |
| Share of results for the year | – | – | 41 | – |
| Revaluation reserve eliminated shared by minority shareholders upon reclassification to properties under development | – | – | (157) | – |
| At 31 March 2002 | 413,380 | 540,364 | 7,578 | 116,587 |

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of a subsidiary

| | 2002 HK\$'000 | 2001 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Net assets acquired: | | |
| Fixed assets | 494 | – |
| Properties held for development | 106,374 | – |
| Prepayments, deposits and other receivables | 9 | – |
| Other payables | (929) | – |
| Bank loan | (35,781) | – |
| Minority interests | (3,513) | – |
| | 66,654 | – |
| Satisfied by: | | |
| Cash | 34,126 | – |
| Other payables | 32,528 | – |
| | 66,654 | – |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

| | 2002 HK\$'000 | 2001 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Cash consideration | 34,126 | – |
| Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary | 34,126 | – |

On 15 January 2002, the Group acquired a 95% interest in Beijing Xing Gang Real Estate Company Limited, which is engaged in property development. The purchase consideration for the acquisition was in the form of cash, with HK\$34,126,000 being paid during the year.

The subsidiary acquired in the current year made no significant contribution to the Group in respect of the Group's cash flows, turnover and contribution to the consolidated loss after tax and before minority interests for the year.

31. CONTINGENT LIABILITIES

At 31 March 2002, the Group had given guarantees to the extent of approximately HK\$171,731,000 (2001: HK\$271,776,000) to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group and a property of which the sales were underwritten by the Group.

At 31 March 2002, the Company had given guarantees to the extent of approximately HK\$232,055,000 (2001: HK\$181,077,000) to banks for facilities granted to its subsidiaries.

32. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 month to 3 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 31 March 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2002 | Group |
|---|----------------------|-----------------|
| | HK\$'000 | 2001 |
| | <u> </u> | <u>HK\$'000</u> |
| Within one year | 11,947 | 1,998 |
| In the second to fifth years, inclusive | 2,007 | 706 |
| | <u>13,954</u> | <u>2,704</u> |

32. OPERATING LEASE ARRANGEMENTS (Continued)**(b) As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 3 years.

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

| | Group | |
|---|-----------------|----------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| Within one year | 932 | 456 |
| In the second to fifth years, inclusive | 937 | – |
| | 1,869 | 456 |

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.

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group and the Company had the following capital commitments at the balance sheet date.

| | Group | | Company | |
|------------------------------------|-----------------|----------|-----------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Property development expenditure: | | | | |
| Contracted for | 94,884 | 81,703 | – | – |
| Authorised, but not contracted for | 520,751 | 318,852 | – | – |
| | 615,635 | 400,555 | – | – |

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, the Group had the following transactions with a related party during the year:

- (a) Under a licence contract dated 20 September 1997 between Coastal International Holdings Limited (the Company's ultimate holding company) and the Company, Coastal International Holdings Limited agreed to grant to the Company, for an annual fee of HK\$10 payable by the Company under the agreement, a non-exclusive licence to use its trademark for an initial term of ten years.

The independent non-executive directors of the Company have reviewed and confirmed that the above transaction was conducted in the ordinary and usual course of the Group's business, is in accordance with the terms of the agreement governing the transaction, and is fair and reasonable so far as the shareholders of the Company are concerned.

- (b) As disclosed in the circular and prospectus in connection with the Company's rights issue completed during the year (note 27), Coastal International Holdings Limited had entered into an underwriting agreement with the Company in respect of the rights issue. As a result, Coastal International Holdings Limited had received an underwriting commission of approximately HK\$660,000 from the Company in accordance with the terms of the underwriting agreement.

35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

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

| <u>Name</u> | <u>Place of incorporation/ registration and operations</u> | <u>Nominal value of issued share capital/ registered capital</u> | <u>Percentage of equity attributable to the Group</u> | <u>Principal activities</u> |
|--|--|--|---|-----------------------------|
| Directly held subsidiary: | | | | |
| Coastal Realty (BVI) Limited | British Virgin Islands/Hong Kong | US\$200 Ordinary | 100% | Investment holding |
| Indirectly held subsidiaries: | | | | |
| Beijing Xing Gang Real Estate Company Limited | PRC | RMB112,050,000 | 95% | Property development |
| Coastal Greenland Development (An Shan) Ltd. ^ | PRC | RMB50,000,000 | 96% | Property development |

35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

| <u>Name</u> | <u>Place of incorporation/ registration and operations</u> | <u>Nominal value of issued share capital/ registered capital</u> | <u>Percentage of equity attributable to the Group</u> | <u>Principal activities</u> |
|---|--|--|---|-----------------------------|
| Indirectly held subsidiaries: <i>(Continued)</i> | | | | |
| Coastal Greenland Development (Fujian) Ltd. # | PRC | US\$10,000,000 | 100% | Property development |
| Coastal Greenland Development (Shenzhen) Ltd. # | PRC | US\$12,000,000 | 100% | Property development |
| Coastal Greenland Development (Wuhan) Ltd. # | PRC | RMB50,000,000 | 100% | Property development |
| Coastal Greenland Development (Xiamen) Ltd. # | PRC | RMB100,000,000 | 100% | Property development |
| Coastal Realty Development Co. Limited | Hong Kong | HK\$10 Ordinary HK\$20,000,000 Non-voting deferred <i>(Note ii)</i> | 100% | Investment holding |
| Coastal Realty Development (Shanghai) Co., Ltd. # | PRC | US\$12,000,000 | 100% | Property investment |
| Coastal Realty Management Company Limited | Hong Kong | HK\$500,000 Ordinary | 100% | Investment holding |
| Comfort Property Management (Anshan) Ltd. # | PRC | RMB1,000,000 | 100% | Property management |
| Comfort Property Management (Shenzhen) Ltd. # | PRC | US\$121,000 | 100% | Property management |
| Comfort Property Management (Wuhan) Ltd. # | PRC | HK\$1,000,000 | 100% | Property management |

35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

| <u>Name</u> | <u>Place of incorporation/ registration and operations</u> | <u>Nominal value of issued share capital/ registered capital</u> | <u>Percentage of equity attributable to the Group</u> | <u>Principal activities</u> |
|---|--|--|---|---------------------------------|
| Indirectly held subsidiaries: <i>(Continued)</i> | | | | |
| Comfort Property Management (Xiamen) Ltd. # | PRC | RMB3,000,000 | 100% | Property management |
| Direct Pole Limited | Hong Kong | HK\$10,000 Ordinary | 100% | Property investment |
| Dragon Gain Investment Limited | Hong Kong | HK\$2 Ordinary | 100% | Investment holding |
| Fenhall Development Limited | Hong Kong | HK\$10,000 Ordinary | 100% | Property investment |
| Fenson Development Limited | Hong Kong | HK\$10,000 Ordinary | 100% | Property investment |
| Frenwick Development Limited | Hong Kong | HK\$10,000 Ordinary | 100% | Property investment |
| Greaton Development Limited | Hong Kong | HK\$2 Ordinary | 100% | Property investment |
| Kingdom Ace Development Limited | Hong Kong | HK\$2 Ordinary | 100% | Property investment |
| Kingdom View Development Limited | Hong Kong | HK\$2 Ordinary | 100% | Property investment |
| Kings Crown Holdings Ltd. | British Virgin Islands/Hong Kong | US\$50,000 Ordinary | 100% | Investment holding |
| Pearl Square Enterprises Limited | Hong Kong | HK\$2 Ordinary | 100% | Investment holding |
| Shanghai Coastal Golden Bridge Real Estate Ltd. ^ | PRC | RMB10,000,000 | 100% | Property development |

35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

| <u>Name</u> | <u>Place of incorporation/ registration and operations</u> | <u>Nominal value of issued share capital/ registered capital</u> | <u>Percentage of equity attributable to the Group</u> | <u>Principal activities</u> |
|--|--|--|---|-----------------------------|
| Indirectly held subsidiaries: <i>(Continued)</i> | | | | |
| Shanghai Coastal Greenland Real Estate Ltd. ^ | PRC | RMB20,000,000 | 100% | Property development |
| Shanghai Ling Zhi Properties Co., Ltd. ^ | PRC | US\$25,000,000 | 100% | Property development |
| Shanghai Xin Jia Management Co., Ltd.^ (formerly Shanghai Wu Tian Property Management Services Co., Ltd.) | PRC | RMB3,000,000 | 100% | Property management |
| Strive More Industrial Limited | Hong Kong | HK\$102,500 Ordinary | 100% | Investment holding |
| Tacklemate Investment Limited | Hong Kong | HK\$2 Ordinary | 100% | Property investment |
| Trenco Properties Limited | Hong Kong | HK\$10,000 Ordinary | 100% | Investment holding |
| Wuhan Commercial Plaza Co., Ltd. # | PRC | US\$5,000,000 | 100% | Property development |
| Xiamen Linzi Construction Development Co., Ltd. # | PRC | US\$5,000,000 | 100% | Property development |

35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

- (i) For those companies incorporated in Hong Kong and the British Virgin Islands, the amounts stated represent the nominal value of the issued share capital. For those companies registered in the PRC, the amounts stated represent the registered capital.
- (ii) Non-voting deferred shares do not entitle the holders to receive any profit, or to receive notice of or to attend or vote at any general meeting of the company. On a return of assets on a winding up or otherwise, the assets of the company available for distribution among the members shall be distributed as regards the first HK\$100,000,000,000,000 thereof among the holders of ordinary shares in proportion to the amounts paid up on the ordinary shares held by them respectively, and the balance (if any) of such assets shall belong to and be distributed among the holders of the non-voting deferred shares and the holders of the ordinary shares *pari passu* among themselves in each case in proportion to the amounts paid up on the shares held by them respectively.

wholly foreign owned enterprise

^ contractual joint venture

During the year, the Group acquired Beijing Xing Gang Real Estate Company Limited from certain independent third parties. Further details of this acquisition are included in note 30(c) to the financial statements.

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

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new and revised SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 July 2002.