

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 20 and 21.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

During the year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs had no significant effect on the financial statements for the current or prior year except that in accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increased the retained profits of the Group and the Company respectively, as at 1st January, 2000 by HK\$46,098,000. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment properties, hotel property and investments in securities.

The financial statements have been prepared in accordance with accounting principals generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries and associates which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Goodwill – *continued*

In the current year, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserve is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

In the current year, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate negative goodwill previously credited to reserves. Accordingly, negative goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interest in associates is stated at the Group's share of the net assets of the associates less any identified impairment loss.

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

Intangible asset

Intangible asset is stated at cost less amortisation and any identified impairment loss. The cost of the intangible asset is amortised over the estimated useful life on a straight line basis.

Recognition of revenue

Revenue of the Group for the year is recognised on the following bases:

Sales of goods is recognised when goods are delivered and title has been passed to the customers.

Hotel revenue from rooms and other ancillary services are recognised when the services are rendered.

Income from sale of completed properties is recognised on the execution of a binding sale and purchase agreement.

Dividend income from investments in securities is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Income from sale of newspaper is recognised when the newspapers are delivered.

Income from advertisement in newspaper is recognised when the relevant advertisement is published.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the respective leases.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as expenses immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investment properties

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

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

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the disposed property is transferred to the income statement.

No depreciation or amortisation is provided on investment properties except where the unexpired term, including the renewal period, of the relevant lease is twenty years or less.

Property, plant and equipment

Properties under construction, toll highway and construction in progress

Properties under construction, toll highway and construction in progress are stated at cost, which includes land cost and the related construction cost and borrowing costs capitalised in accordance with the Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction, toll highway and construction in progress until the construction is completed and the properties, assets or toll highway are ready for use.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment – *continued*

Hotel property

Hotel property (including interests in land and building and its integral fixed plant) is stated at their open market value based on professional valuation at the balance sheet date. Any surplus or deficit arising from the same asset on the revaluation of the hotel property is credited or charged to the revaluation reserve of the same asset unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the asset revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

No depreciation is provided on hotel property or on its integral fixed plant. It is the Group's policy to maintain these asset in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated life of this asset and its high residual value, any depreciation would be insignificant.

Other property, plant and equipment

Property, plant and equipment, other than properties under construction, toll highway, construction in progress and hotel property, is stated at cost less depreciation and accumulated impairment losses.

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

Depreciation is provided to write off the other items of the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land and land use rights	Over the term of the lease or land use rights
Buildings	2% or the term of the lease or land use rights, if shorter
Furniture and fixtures	10% – 25%
Machinery and equipment	10% – 20%
Motor vehicles	12.5% – 25%

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Properties under/held for development

Properties under/held for development where no decision has yet been taken to re-sell or hold for long term purposes are stated at cost less accumulated impairment losses. No depreciation and amortisation is provided on properties under/held for development until the construction is completed and the properties are ready for their intended use.

Costs comprise land cost, construction costs, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to the properties under/held for development.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Investments in securities

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Capitalisation of borrowing costs

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

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Assets held under hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair value at the date of acquisition. The corresponding liability to the hirer, net of interest charges, is included in the balance sheet as a hire purchase obligation. Finance costs, which represent the difference between the total commitments and the outstanding principal amount at the inception of the hire purchase contracts, are charged to the income statement over the period of the relevant contracts so as to produce a constant periodic rate of charge on the remaining balances of the obligation for each accounting period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

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

Pension/Retirement benefit scheme

The pension costs/retirement benefit scheme contributions relating to the defined contribution scheme/mandatory provident fund scheme charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. The amount of contributions payable to previous schemes in jurisdictions other than Hong Kong are charged to the income statement.

Taxation

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

4. TURNOVER

	2001 HK\$'000	2000 HK\$'000
Sales of goods, net of returns and sales taxes	2,986,793	3,091,851
Publication of newspaper	132,311	9,818
Sales of properties	58,800	12,500
Hotel operation	50,518	38,469
Rental income	5,982	5,420
	3,234,404	3,158,058

The Group carries out its activities primarily in the People's Republic of China ("PRC") including Hong Kong, details of the analysis of the Group's turnover and contribution to results from operations by principal business segment and geographical market are set out in note 5.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

5. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and contribution to operating results and segmental assets and liabilities by business segments is as follows:

	Toll highway operation	Tires	Heavy industry	Consumer goods	Electronic products	Pharma- ceutical products	Property investment	Hotel operation	Newspaper publication	Investment in securities and receivables	Others	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the year ended 31st December 2001</i>													
REVENUE													
External sales	-	2,608,862	115,036	189,706	24,310	62,071	65,662	50,518	132,311	-	76,872	-	3,325,348
Inter-segment sales	-	-	-	-	-	-	1,685	-	-	-	2,193	(3,878)	-
Total revenue	-	2,608,862	115,036	189,706	24,310	62,071	67,347	50,518	132,311	-	79,065	(3,878)	3,325,348
RESULT													
Segment result	(360,272)	(128,124)	2,583	7,180	(6,998)	8,591	(138,553)	(18,125)	(31,663)	(206,741)	(2,782)	-	(874,904)
Unallocated corporate expenses													(104,018)
Finance costs													(81,462)
Interest income													71,725
Dividend income													5,509
Share of results of associates	-	-	-	-	-	(6,995)	-	-	(8,998)	-	(2,004)	-	(17,997)
Loss before taxation													(1,001,147)
Taxation													(5,982)
Loss before minority interests													(1,007,129)
Minority interests													408,399
Net loss for the year													(598,730)
<i>Assets and liabilities at 31st December, 2001</i>													
ASSETS													
Segment assets	841,836	2,704,852	124,177	111,669	20,933	185,625	602,285	208,102	-	1,037,962	96,889	-	5,934,330
Interest in associates	-	88,133	-	-	-	-	17,592	-	64,899	-	5,644	-	176,268
Unallocated total assets													143,978
Consolidated total assets													6,254,576
LIABILITIES													
Segment liabilities	(721,246)	(637,412)	(44,244)	(40,281)	(10,723)	(84,061)	(121,401)	(8,693)	-	-	(2,191)	-	(1,670,252)
Unallocated corporate liabilities													(1,039,952)
Consolidated total liabilities													(2,710,204)
<i>Other information for the year ended 31st December, 2001</i>													
Capital expenditure													
- Property, plant and equipment	273,565	118,195	4,191	11,167	34	114,393	21,508	-	41,383	-	1,000	-	585,436
- Properties under/hold for development	-	-	-	-	-	-	8,392	-	-	-	-	-	8,392
- Investment properties	-	-	-	-	-	-	96,510	-	-	-	-	-	96,510
Depreciation and amortisation	-	110,796	4,346	7,594	837	1,079	1,792	-	18,165	-	1,794	-	146,403
Impairment and revaluation loss	360,272	90,524	-	-	-	-	123,108	25,000	-	50,413	17,592	-	666,909
Other non-cash expenses	-	84,972	-	-	-	-	-	-	-	139,972	-	-	224,944

Inter-segment revenue are charged at market rates.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

5. SEGMENTAL INFORMATION – *continued*

	Toll highway operation HK\$'000	Tires HK\$'000	Heavy industry HK\$'000	Consumer goods HK\$'000	Electronic products HK\$'000	Pharma- ceutical products HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Newspaper publication HK\$'000 (Note)	Investment in securities and receivables HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<i>For the year ended 31st December, 2000</i>													
REVENUE													
External sales	-	2,680,155	107,965	209,246	92,797	30,241	19,676	38,469	9,818	-	58,841	-	3,247,208
Inter-segment sales	-	-	-	-	-	-	-	-	-	-	2,519	(2,519)	-
Total revenue	-	2,680,155	107,965	209,246	92,797	30,241	19,676	38,469	9,818	-	61,360	(2,519)	3,247,208
RESULT													
Segment result	-	(35,382)	(19,572)	5,467	(73)	30,241	2,743	(4,191)	(7,626)	(765,356)	12,993	-	(780,756)
Unallocated corporate expenses	-	-	-	-	-	-	-	-	-	-	-	-	(52,716)
Finance costs	-	-	-	-	-	-	-	-	-	-	-	-	(88,487)
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	114,714
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	6,509
Share of results of associates	-	-	-	-	-	-	-	-	-	6,968	(19,115)	-	(12,147)
Loss before taxation	-	-	-	-	-	-	-	-	-	-	-	-	(812,883)
Taxation	-	-	-	-	-	-	-	-	-	-	-	-	(6,608)
Loss before minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(819,491)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	88,809
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(730,682)
<i>Assets and liabilities at 31st December, 2000</i>													
ASSETS													
Segment assets	1,101,600	3,049,173	51,009	175,658	55,113	-	699,072	233,261	163,644	948,731	165,884	-	6,643,145
Interest in associates	-	89,889	-	-	-	-	-	-	-	-	25,863	-	115,752
Unallocated total assets	-	-	-	-	-	-	-	-	-	-	-	-	973,437
Consolidated total assets	-	-	-	-	-	-	-	-	-	-	-	-	7,732,334
LIABILITIES													
Segment liabilities	(638,906)	(742,576)	(51,651)	(61,970)	(15,973)	-	(194,552)	(21,722)	(44,295)	-	(10,186)	-	(1,781,831)
Unallocated corporate liabilities	-	-	-	-	-	-	-	-	-	-	-	-	(1,401,273)
Consolidated total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	(3,183,104)
<i>Other information for the year ended 31st December, 2000</i>													
Capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-
- Property, plant and equipment	873,273	65,086	32,352	8,609	3,302	-	458,205	225,000	-	-	2,116	-	1,667,943
- Properties under/hold for development	-	-	-	-	-	-	200,410	-	-	-	-	-	200,410
- Investment properties	-	-	-	-	-	-	71,818	-	-	-	-	-	71,818
- Intangible assets	-	-	-	-	-	-	-	-	107,656	-	-	-	107,656
Depreciation and amortisation	-	79,441	18,227	8,420	3,426	-	1,430	-	448	-	-	-	111,392
Impairment loss	-	42,277	-	-	-	-	-	-	-	46,000	26,724	-	115,001
Other non-cash expenses	-	11,382	-	-	-	-	-	-	-	482,656	-	-	494,038

Inter-segment revenue are charged at market rates.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

5. SEGMENTAL INFORMATION – *continued*

Note:

In December 2001, the Group's interest in Actiwater Resources Limited ("Actiwater"), which is mainly engaged in newspaper publishing, was disposed of to Sing Pao Media Group Limited ("Sing Pao Media", formerly STAREASTnet.com Corporation). The gain on disposal of Actiwater was approximately HK\$93,806,000.

Upon the completion of the disposal, the Group held approximately 27.97% interest in Sing Pao Media and the business segment of newspaper publishing was regarded as discontinued operation in 2001.

Geographical Segments

The following provides an analysis of the Group's turnover by geographic market, irrespective of the origin of the goods/services:

	Turnover		Contribution to loss from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
PRC, other than Hong Kong	3,006,346	3,144,185	(168,095)	(55,713)
Hong Kong	228,058	13,873	(673,894)	(647,819)
Overseas	–	–	(59,699)	(8,717)
	3,234,404	3,158,058	(901,688)	(712,249)
Finance costs			(81,462)	(88,487)
Share of results of associates			(17,997)	(12,147)
Loss before taxation			(1,001,147)	(812,883)

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

5. SEGMENTAL INFORMATION – continued

Geographical Segments – continued

The following is an analysis of the carrying amount of segment assets, and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
PRC, other than Hong Kong	4,799,836	5,554,164	676,251	1,937,167
Hong Kong	1,052,700	1,614,158	14,087	110,660
Overseas	402,040	564,012	–	–
	6,254,576	7,732,334	690,338	2,047,827

6. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Net gain on disposal/dilution/of interest in subsidiaries/business (note a)	26,057	16,892
Add: Goodwill previously credited to reserves	25,262	3,958
Exchange reserve realised	650	691
Non-distributable reserves realised	11,078	3,151
	63,047	24,692
Gain on disposal/dilution of interest in associates (note b)	–	15,436
Add/(Less): Goodwill previously written off against reserves	–	(3,751)
Exchange reserve realised	–	2,735
Non-distributable reserves realised	–	557
	–	14,977
Interest income	71,725	114,714
Dividend income from listed investments	5,509	6,509
Write-back of allowance for bad debts	10,390	9,754
Others	17,507	39,727
	168,178	210,373

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For The Year ended 31st December, 2001

6. OTHER REVENUE – *continued*

Notes:

- (a) The net gain on disposal/dilution of interest in subsidiaries/business in 2001 comprises (i) the gain on disposal of the Group's interest in Actiwater of approximately HK\$93,806,000; disposal of Gold Brilliant Limited of approximately HK\$3,309,000 and disposal of other subsidiaries of HK\$16,035,000 and (ii) the net loss on disposal of the Group's interest in Dalian C.S.I. Metal Containers Co., Ltd of approximately HK\$8,812,000; Ningbo Zhonghua Electronics Co., Ltd of approximately HK\$255,000; dilution of the Group's interest in China Land Group Limited ("China Land") of approximately HK\$30,038,000 and the loss on disposal of certain business in Double Happiness Tyre Industries Corporation Limited of approximately HK\$10,998,000.

The net gain on disposal/dilution/partial disposal of the interest in subsidiaries in 2000 comprised (i) the net gain on disposal of the Group's interest in China Estate (Holdings) Limited of HK\$12,444,000; Yantai C.S.I. Pharmaceutical Company Limited of HK\$30,241,000; and partial disposal of other subsidiaries of HK\$5,036,000; and (ii) the net loss on disposal of the Group's interest in Wuxi C.S.I. Mechanical and Electrical Equipment Company Limited of HK\$5,673,000 and Ningbo C.S.I. Power & Machinery Group Company Limited of HK\$17,356,000.

- (b) The net gain on disposal/dilution of interest in associates in 2000 comprised (i) loss on disposal of the Group's interest in China Packaging Equipment (H.K.) Company Limited of HK\$2,488,000; (ii) the net gain on dilution of the Group's interest in Asia Fiber Holdings Limited of HK\$7,407,000; and (iii) the net gain on dilution of the Group's interest in Pacificnet.com, Inc. ("Pacificnet" formerly known as Creative Master International, Inc.) of HK\$10,058,000.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

7. OTHER EXPENSES

	2001 HK\$'000	2000 HK\$'000
Impairment and revaluation loss on (<i>note a</i>):		
– toll highway	360,272	–
– properties under construction	63,257	–
– construction in progress (<i>note b</i>)	61,493	–
– hotel property	25,000	–
– machinery and equipment	17,863	–
– motor vehicles	1,156	–
	529,041	–
– properties under/held for development	28,793	–
– properties held for sale	11,081	–
– investment properties	19,977	–
– goodwill of subsidiaries and associates	14,005	26,724
– interest of an associate	3,587	–
Unrealised holding loss on investments in securities	139,972	482,656
Allowance for bad and doubtful debts	84,972	11,382
Loss on disposal of investments in securities	15,182	260,946
Loss on disposal of property, plant and equipment	2,827	–
Impairment loss recognised in respect of inventories	10,012	42,277
Impairment loss recognised in respect of loan and interest receivables	50,413	46,000
	909,862	869,985

Notes:

- (a) During the year, the directors of the Group reviewed the carrying amount of the property interests of the Group in light of the current market condition, and with reference to the valuation report made by independent firms of professional property valuers, the directors identified impairment and revaluation loss on the property held by the Group. Accordingly, the impairment and revaluation loss has been recognised in the consolidated income statement for the year. Details of these are set out in notes 14, 15 and 16 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

7. OTHER EXPENSES – *continued*

Notes: – continued

- (b) Since 1993, one of the Company's subsidiaries, Double Happiness Tyre Industries Corporation Limited ("DH") has undertaken the construction of a radial tire factory (the "Project"). In 1995, the Project was temporarily suspended and the total costs incurred for the Project up to 31st December, 2000 were approximately RMB257,844,000 (equivalent to approximately HK\$242,107,000). These costs have been included in construction in progress. Managements of DH and its immediate holding company, China Enterprises Limited ("China Enterprises", formerly China Tire e-commerce.com Limited and China Tire Holdings Limited) are in the process of formulating and compromising on a financing plan for the Project. A major reassessment on the capacity and technical specifications for the facility was carried out in 1999 and an appraisal ("the Appraisal") of the replacement costs of the facilities was also conducted by a third party PRC asset appraiser based on an assumption that the construction of the Project will be resumed. In the absence of a definite financing plan, the directors of China Enterprises also performed an assessment ("the Assessment") of the value of the assets of the Project as at 31st December, 1999.

Based on the results of the Appraisal and the Assessment, an aggregate potential impairment loss provision was made to write down the carrying value of the assets of the Project by approximately RMB122,400,000 (equivalent to HK\$114,887,000) during the year ended 31st December 1999.

A further assessment ("Second Assessment") on the assets of the Project was performed and a valuation of the fair market value of the assets was conducted by American Appraisal Hongkong Limited, an independent firm of professional valuer. Based on the results of the Second Assessment, the directors considered no further provision is required for the carrying value of the assets of the Project for the year ended 31st December 2000.

As at 31st December, 2001, management of DH and China Enterprises have reviewed the carrying amount of the Project with reference to its estimated selling price. An impairment loss of HK\$61,493,000, representing the difference between the estimated selling price and the carrying amount of the Project, has been identified and has been recognised in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

8. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– directors remuneration (<i>note 9(a)</i>)	2,696	10,593
– other staff costs (<i>Note 9(b)</i>)	302,566	304,254
– retirement benefits scheme contributions, excluding directors	37,050	38,750
Total staff costs	342,312	353,597
Less: amount capitalised in toll highway, properties under/held for development and properties under construction	(6,565)	–
	335,747	353,597
Auditors' remuneration		
Current year	6,521	5,908
Overprovision in prior year	(2,135)	(21)
Depreciation and amortisation of property, plant and equipment:		
– owned assets	140,967	110,944
– assets under hire purchase contracts	7	–
Less: amount capitalised in toll highway	(231)	–
	140,743	110,944
Amortisation of intangible asset included in administrative expenses	4,934	448
Amortisation of goodwill included in administrative expenses	495	–
Loss on disposal of property, plant and equipment	2,827	310
Loss on disposal of investment properties	50	–
and after crediting:		
Net rental income in respect of premises after outgoings of HK\$28,000 (2000: HK\$36,000)	11,886	11,406

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

9. DIRECTORS' AND EMPLOYEE REMUNERATION

(a) DIRECTORS' REMUNERATION

	2001 HK\$'000	2000 HK\$'000
Fees		
– Executive directors	–	7,398
– Non-executive directors	295	50
– Independent non-executive directors	216	345
	<u>511</u>	<u>7,793</u>
 Other emoluments		
– Executive directors		
Salaries and other benefits	2,185	2,800
	<u>2,696</u>	<u>10,593</u>

The number of directors whose remuneration falls within the bands set out below is as follows:

HK\$	2001 Number of directors	2000 Number of directors
Nil to 1,000,000	12	10
1,000,001 to 1,500,000	1	1
1,500,001 to 2,000,000	–	1
3,500,001 to 4,000,000	–	–
7,000,001 to 8,000,000	–	1
	<u>13</u>	<u>13</u>

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

9. DIRECTORS' AND EMPLOYEE REMUNERATION – *continued*

(b) EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group included two directors (2000: three directors) of the Company, details of whose remuneration are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2001 HK\$'000	2000 HK\$'000
Remuneration, salaries and other benefits	3,595	2,948

HK\$	2001 Number of employees	2000 Number of employees
Nil to 1,000,000	1	–
1,000,001 to 1,500,000	2	1
1,500,001 to 2,000,000	–	1
	3	2

10. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	81,423	89,709
Other borrowings	198	51
Obligations under hire purchase contracts	9	–
	81,630	89,760
Interest on bank borrowings not wholly repayable within five years	39,605	26,728
	121,235	116,488
Less: Amount capitalised in toll highway	(39,773)	(28,001)
	81,462	88,487

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

11. TAXATION

	2001 HK\$'000	2000 HK\$'000
The (credit) charge comprises:		
Hong Kong Profits Tax		
Overprovision in prior years	-	(183)
	-	(183)
Taxation in other jurisdictions	12,982	6,791
Overprovision in prior years	(7,000)	-
Taxation attributable to the Company and its subsidiaries	5,982	6,608

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. As the Company's PRC subsidiaries are Sino-foreign joint venture enterprises, they are eligible for certain tax holidays and concessions. Accordingly, certain of the PRC subsidiaries were exempted from PRC income tax or subject to tax at reduced rates. PRC income tax is calculated at the applicable rates relevant to the PRC subsidiaries.

Details of deferred taxation are set out in note 33.

12. DIVIDEND

	2001 HK\$'000	2000 HK\$'000
Final dividend in 1999 at HK\$0.01 per ordinary share as a result of adoption of revised SSAP 9 described in note 2	-	46,098

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$598,730,000 (2000: HK\$730,682,000) and on the adjusted weighted average of 460,978,942 (2000: 459,375,955) ordinary shares in issue during the year, after adjustment for the effect of the consolidation of the Company's shares as set out in note 30.

No disclosure of the diluted loss per share has been calculated for both years as the exercise of the share options would result in a decrease in loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

14. INVESTMENT PROPERTIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
VALUATION		
At 1st January	71,818	51,954
Acquired on acquisition of subsidiaries	96,510	71,818
Eliminated on disposal of subsidiaries	(84,510)	(51,954)
Disposal	(14,500)	–
Deficit arising on revaluation	(19,977)	–
	<hr/>	<hr/>
At 31st December	49,341	71,818

The Group's investment properties were revalued at 31st December, 2001 by CB Richard Ellis Limited and RHL Appraisal Limited, independent firms of professional property valuers, on an open market value basis. Deficit arising on the revaluation of HK\$19,977,000 has been charged to the consolidated income statement.

The Group's investment properties are held for rental under operating leases.

The carrying value of the investment properties comprises:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Properties held under medium-term leases in Hong Kong	12,000	14,500
Properties held under medium-term land use right in the PRC	37,341	57,318
	<hr/>	<hr/>
	49,341	71,818

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture and fixtures	Machinery and equipment	Motor vehicles	Properties under construction	Toll highway	Construction in progress	Hotel property	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
COST OR VALUATION									
At 1st January, 2001	485,396	19,779	1,073,381	44,511	385,832	897,273	196,906	225,000	3,328,078
Acquired on acquisition of subsidiaries	16,598	15,714	13,871	1,709	-	-	29,179	-	77,071
Additions	3,236	14,087	97,175	3,050	18,257	273,565	98,995	-	508,365
Transfer	119	-	168,918	3,825	-	-	(172,862)	-	-
Disposals	(1,370)	(4,733)	(12,416)	(5,743)	-	-	-	-	(24,262)
Deficit on revaluation	-	-	-	-	-	-	-	(25,000)	(25,000)
Disposal of subsidiaries	(47,829)	(17,862)	(206,950)	(6,414)	-	-	(238)	-	(279,293)
At 31st December, 2001	456,150	26,985	1,133,979	40,938	404,089	1,170,838	151,980	200,000	3,584,959
Comprising:									
At cost	456,150	26,985	1,133,979	40,938	404,089	1,170,838	151,980	-	3,384,959
At valuation	-	-	-	-	-	-	-	200,000	200,000
	456,150	26,985	1,133,979	40,938	404,089	1,170,838	151,980	200,000	3,584,959
DEPRECIATION AND AMORTISATION									
At 1st January, 2001	115,771	14,110	432,211	31,399	-	-	-	-	593,491
Provided for the year	22,532	4,294	110,404	3,744	-	-	-	-	140,974
Impairment loss	-	-	17,863	1,156	63,257	360,272	61,493	-	504,041
Eliminated on disposals	(448)	(3,946)	(8,138)	(3,085)	-	-	-	-	(15,617)
Eliminated on disposal of subsidiaries	(13,838)	(2,973)	(67,378)	(5,940)	-	-	-	-	(90,129)
At 31st December, 2001	124,017	11,485	484,962	27,274	63,257	360,272	61,493	-	1,132,760
NET BOOK VALUES									
At 31st December, 2001	332,133	15,500	649,017	13,664	340,832	810,566	90,487	200,000	2,452,199
At 31st December, 2000	369,625	5,669	641,170	13,112	385,832	897,273	196,906	225,000	2,734,587

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

15. PROPERTY, PLANT AND EQUIPMENT – *continued*

- (a) Toll highway represents the Group's interest in a toll highway under construction in Shenzhen ("Shenzhen Highway"). In view of the fact that the toll rates approved by relevant PRC government authorities were lower than their budgeted rates, the Group has recognised impairment loss with reference to the valuation made by Grant Sherman Appraisal Limited, an independent firm of professional property valuers under a discounted cash flow method, using a discount rate of 20% and taking into consideration the expected future cost to complete the Shenzhen Highway and of the traffic projections and studies conducted by Scott Wilson (Hong Kong) Limited, an independent traffic consultant of the Shenzhen Highway. An impairment loss of approximately HK\$360,272,000 has been identified which has been recognised in the consolidated income statement in the current year. A subsidiary of the Company has been granted the right to operate and manage the Shenzhen Highway for a period of 25 years up to 30th November, 2022.
- (b) The Group's hotel property was revalued at 31st December, 2001 by CB Richard Ellis Limited, an independent firm of professional property valuers, on an open market value basis.

The hotel property is situated in the PRC, other than Hong Kong, is held under medium-term land use right. The Group has been granted the right to operate and manage the hotel for a period from January 1987 to January 2017, and subject to certain conditions to be fulfilled, the operating period may be extended for a further period of 20 years.

- (c) The properties under construction are situated in the PRC, other than Hong Kong, and are held under medium-term land use right. In view of the market condition, the Group has recognised an impairment loss with reference to the valuation made by CB Richard Ellis Limited, an independent firm of professional property valuers, on an open market basis. An impairment loss of approximately HK\$63,257,000 has been identified which has been recognised in the consolidated income statement in the current year.
- (d) The Group reviewed the carrying amount of machinery and equipment and motor vehicles using the estimated selling prices of the machinery and equipment and motor vehicles in the proposed agreement entered into between the Group and the potential purchaser. An impairment loss of approximately HK\$19,019,000 representing the difference between the estimated selling prices and the carrying amount was identified which has been recognised in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

15. PROPERTY, PLANT AND EQUIPMENT – *continued*

(e) At 31st December, 2001, included in net book value of toll highway is interest capitalised of HK\$77,719,000 (2000: HK\$37,946,000).

	Land and buildings HK\$'000	Furniture and fixtures HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY					
COST					
At 1st January, 2001	6,824	2,511	3,274	–	12,609
Additions	–	71	231	541	843
Disposals	–	(922)	(1,862)	–	(2,784)
At 31st December, 2001	6,824	1,660	1,643	541	10,668
DEPRECIATION					
At 1st January, 2001	191	983	2,775	–	3,949
Provided for the year	170	308	208	68	754
Eliminated on disposals	–	(920)	(1,837)	–	(2,757)
At 31st December, 2001	361	371	1,146	68	1,946
NET BOOK VALUES					
At 31st December, 2001	6,463	1,289	497	473	8,722
At 31st December, 2000	6,633	1,528	499	–	8,660

The net book value of the land and buildings shown above comprises:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Properties held under medium-term land use rights in the PRC, other than Hong Kong	332,133	369,625	6,463	6,633

The net book value of motor vehicle as at 31st December, 2001 included an amount of approximately HK\$263,000 in respect of assets held under hire purchase contracts. No assets were held under hire purchase contracts as at 31st December, 2000.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

16. PROPERTIES UNDER/HELD FOR DEVELOPMENT

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
COST		
At 1st January	157,401	–
Acquired on acquisition of a subsidiaries	–	173,869
Development costs incurred during the year	8,392	26,541
Impairment loss	(28,793)	–
Transfer to properties held for sale	–	(43,009)
	137,000	157,401
At 31st December		
Comprising:		
	2001 HK\$'000	2000 HK\$'000
Properties held under medium-term land use rights in the PRC, other than Hong Kong	111,000	131,086
Properties held under long-term land use rights in the PRC, other than Hong Kong	26,000	26,315
	137,000	157,401

Included above is the Group's interest in development projects of the Hong Kong Macau Square under medium-term land use right in Huizhou and of Lang De Dong under long-term land use rights in Taishan. In view of the market condition, the Group has made impairment losses, with reference to the valuation made by CB Richard Ellis Limited and RHL Appraisal Limited, both of which are independent firms of professional property valuers, on an open market basis. An impairment loss of approximately HK\$28,793,000 has been identified which has been recognised in the consolidated income statement in the current year.

17. PAYMENT FOR ACQUISITION OF LAND DEVELOPMENT RIGHT

THE GROUP AND THE COMPANY

During the year, an agreement was entered into between the Company and 北京市順義區李橋鎮人民政府 (the "People's Government of Li Qiao Town") for the joint development project of a piece of land which is adjacent to the eastern side of Beijing Capital Airport, the PRC, under which the Company agreed to make an aggregate payment of approximately HK\$216,981,000 (equivalent to RMB230,000,000) to the People's Government of Li Qiao Town for the land development right of the project.

As at 31st December, 2001, a partial payment of approximately HK\$2,727,000 (equivalent to RMB3,000,000) was paid by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

18. INTANGIBLE ASSET

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
COST		
At 1st January	107,656	–
Addition	–	107,656
Eliminated on disposal of subsidiary	(107,656)	–
At 31st December	–	107,656
AMORTISATION		
At 1st January	448	–
Provided for the year	4,934	448
Eliminated on disposal of subsidiary	(5,382)	–
At 31st December	–	448
NET BOOK VALUES		
At 31st December	–	107,208

The intangible asset represents the rights to publish newspaper under the trademarks and tradenames of "Sing Pao" and was amortised over a period of 20 years.

19. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition of subsidiaries during the year	53,112
Eliminated on disposal of subsidiaries	(19,909)
At 31st December, 2001	33,203
AMORTISATION	
Provided for the year and at 31st December, 2001	495
NET BOOK VALUES	
At 31st December, 2001	32,708
At 31st December, 2000	–

Goodwill is amortised on a straight line basis and the amortisation period for goodwill is 20 years.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

20. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/PAYABLES DUE TO SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Investments in subsidiaries		
Shares listed overseas, at cost	228,703	228,703
Unlisted shares, at cost	100,483	99,486
	<u>329,186</u>	<u>328,189</u>
Market value of listed shares	<u>23,868</u>	<u>56,935</u>
Receivables due from subsidiaries		
Amounts due from subsidiaries	3,598,640	3,051,781
Less: Impairment loss recognised	<u>(2,083,185)</u>	<u>(871,870)</u>
	<u>1,515,455</u>	<u>2,179,911</u>
Payables due to subsidiaries		
Amounts due to subsidiaries	<u>709,918</u>	<u>866,109</u>

The receivables due from and payables due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

During the year, the directors of the Company reviewed the carrying amount of the interests in subsidiaries of the Company in light of the current market condition, the directors identified impairment and revaluation losses on properties and unrealised loss on other investment held by the subsidiaries with reference to professional valuation report and market value of shares an impairment loss of approximately HK\$1,211 million has been identified in respect of the receivables due from subsidiaries. Accordingly, the whole amount has been recognised in the income statement as impairment losses for the year.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

20. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/PAYABLES DUE TO SUBSIDIARIES – *continued*

Particulars of the principal subsidiaries at 31st December, 2001 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Australia Net.Com Limited ("Australia Net.Com")	Australia (note a)	A\$31,184,116	–	57.26 (note a)	Investment holding
China Land	Bermuda (note b)	US\$27,248,386	–	65.56 (note b)	Investment holding
China Pharmaceutical Industrial Limited	Hong Kong	HK\$2	–	57.26	Investment holding
China Enterprises	Bermuda (note c)	Supervoting Common Stock US\$30,000 Common Stock US\$60,173	33.27 (note c)	24.84 (note c)	Investment holding
DH (note f)	PRC	RMB280,684,311	–	55 (note c)	Inactive
Dazhai C.S.I. Cement Co., Ltd. (note f)	PRC	RMB17,000,000	51	–	Manufacture of cement
Rosedale Hotel Guangzhou Co., Ltd. (formerly known as Guangzhou Jiang Nan Hotel Co., Ltd.) (note e)	PRC	HK\$89,700,000	–	81	Hotel operation
Guang Zhou Jiang Nan Property Co., Ltd. (note e)	PRC	HK\$68,000,000	–	75	Property development

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

20. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/PAYABLES DUE TO SUBSIDIARIES – *continued*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Hangzhou Zhongce Rubber Company Limited ("Hangzhou Rubber") (note f)	PRC	RMB469,748,777	–	51 (note c)	Manufacture of tires
Huizhou World Express Property Ltd. (note e)	PRC	HK\$109,200,000	–	70	Property development
Ningbo Zhonghua Taifeng Food Co., Ltd. (note f)	PRC	RMB89,004,566	–	51	Production of flour, monosodium glutamate and related food products
Shenzhen Longchen Xinyuan Industrial Co., Ltd ("Longchen Xinyuan") (note f)	PRC	RMB100,000,000	–	60	Construction and operation of toll highway
Shenzhen SEZ Development Centre Co., Ltd. (note e)	PRC	HK\$290,000,000	–	86	Development, holding and trading of properties
Tung Fong Hung Investment Limited ("Tung Fong Hung") (note d)	British Virgin Islands	US\$10,000	–	100	Manufacture and trading of Chinese and western pharmaceutical products
Yantai C.S.I. Rubber Co., Limited (note f)	PRC	RMB60,000,000	–	51 (note c)	Manufacture of tires
Yinchuan C.S.I. (Greatwall) Rubber Co., Ltd. (note f)	PRC	RMB667,833,000	–	51 (note c)	Manufacture of tires

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

20. INVESTMENTS IN SUBSIDIARIES/RECEIVABLES DUE FROM SUBSIDIARIES/PAYABLES DUE TO SUBSIDIARIES – *continued*

Notes:

- a. Australia Net.Com operates both in Australia and Hong Kong and its shares are listed on the Australian Stock Exchange. Australia Net.Com and its subsidiaries are mainly engaged in the investment holding activities.
- b. China Land operates in the PRC and Hong Kong and its shares are listed on the Hong Kong Stock Exchange.
- c. China Enterprises operates in the PRC and its shares are listed on the New York Stock Exchange. The Group holds a 55.2% effective equity interest and an 88.8% voting interest in China Enterprises. China Enterprises is a holding company which owns a majority stake in DH, Hangzhou Rubber, Yantai C.S.I. Rubber Co., Limited and Yinchuan C.S.I. (Greatwall) Rubber Co., Ltd. at 31st December, 2001.
- d. Tung Fong Hung operates in Hong Kong.
- e. This is a PRC Sino-foreign co-operative joint venture.
- f. This is a PRC Sino-foreign equity joint venture.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

21. INTEREST IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Interest in associates				
Share of net assets	156,132	115,752	-	-
Goodwill	20,136	-	-	-
Unlisted shares, at cost	-	-	2	2
	176,268	115,752	2	2
Receivables due from associates				
Amounts due from associates	13,517	5,323	473	1,083
Payables due to associates				
Amounts due to associates	9,625	-	-	-

The amounts due from/to associates are unsecured, non-interest bearing and repayable on demand.

The amount of HK\$20,136,000 mainly represented goodwill arising on acquisition of Sing Pao Media in December, 2001.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

21. INTEREST IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES – *continued*

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

Name of associate	Place of incorporation/ registration	Place of operation	Proportion of nominal value of issued share capital/ registered capital held indirectly by the Company %	Principal activities
Hangzhou Zhongce Land Co., Ltd.	PRC	PRC	50	Property development and investment
Hangzhou Sunrise Rubber Co., Ltd. ("Sunrise")	PRC	PRC	49.2	Manufacture of tire
Pacificnet	Delaware, United States of America	Hong Kong and Singapore	29.52	Development, marketing and supporting full services of business to business e-commerce solutions
Sing Pao Media	Cayman Islands	Hong Kong	27.97	Media and publishing business "Sing Pao Daily News" and "Wide Angle Magazine", provision of multimedia entertainment and life-style information to the Chinese community worldwide

In 1998, the Group invested in Sunrise through Hangzhou Rubber for a total investment and registered capital of US\$29,980,000. The investment commitment was satisfied by the contribution of a radial tire factory under construction. The radial tire factory commenced operations during the year.

During the year, the entire interest in Actiwater was disposed of to Sing Pao Media at a consideration satisfied both by cash and shares issued in Sing Pao Media. Following the completion of the disposal, the Group held approximately 27.97% interest in Actiwater.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

21. INTEREST IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES/PAYABLES DUE TO ASSOCIATES – continued

The above table lists the associates of the Group which, in the opinion of the directors, constituted a substantial portion of the share of results or of net assets of the associates. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

22. RECEIVABLES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Loan and interest receivables (note a)				
– secured	270,474	–	–	–
– unsecured	189,039	50,000	41,457	31,153
Receivables due from related companies (note b)	534	–	28	–
Receivables due from PRC entities (note c)	–	65,212	–	–
	460,047	115,212	41,485	31,153
Less: Impairment loss recognised	(50,413)	(46,000)	–	–
	409,634	69,212	41,485	31,153
Less: Amounts due within one year and shown under current assets	(107,195)	(50,217)	(16,239)	(4,673)
Amounts due after one year	302,439	18,995	25,246	26,480

Notes:

(a) Included in secured loan and interest receivables of approximately HK\$123,491,000 and HK\$110,583,000 were due from Danwei Limited (“Danwei”) and Lucklong Venture Limited (“Lucklong”) respectively. Mr. Lau Ko Yuen, Tom, alternate director to Ms. Chau Mei Wah, Rosanna of the Group, is a director of the ultimate holding company of Danwei and Lucklong. In addition, Ms. Chau Mei Wah, Rosanna, director of the Company, is also a director of Danwei and Lucklong. Shares of certain property holding companies held by Danwei and Lucklong were pledged to the Group as securities to the loans.

Included in unsecured loan and interest receivables were amounts of approximately HK\$51,701,000 (2000: Nil) due from investees of the Group and of approximately HK\$45,183,000 (2000: HK\$34,000,000) advanced to China Development Corporation Limited, a former associate of the Group.

All the loan receivables carry interest at the prevailing market rate.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

22. RECEIVABLES – *continued*

(b) Details of the receivables due from related companies are as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Paul Y. – ITC				
Management Limited	24	–	–	–
Star East Bob Limited	160	–	–	–
Star East Management				
Services Limited	157	–	–	–
Rosedale Hotel				
Management Limited	113	–	–	–
Star East Holdings Limited	80	–	28	–
	534	–	28	–

The amounts are unsecured, non-interest bearing and repayable on demand.

Paul Y. – ITC Management Limited and Rosedale Hotel Management Limited are wholly owned subsidiaries of substantial shareholders of the Company.

Star East Management Services Limited and Star East Bob Limited are the subsidiaries of Star East Holdings Limited, in which certain directors of the Company have beneficial interest.

Star East Holdings Limited is a company, in which certain directors of the Company have beneficial interest.

(c) Receivables from PRC entities as at 31st December, 2000 consisted primarily of a loan to a former joint venture partner and was fully settled during the year.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

23. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	Other investments		Other investments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity securities:				
Listed	261,403	316,375	-	-
Unlisted	73,279	187,225	18,692	18,692
	334,682	503,600	18,692	18,692
Debt securities:				
Listed	-	209,459	-	-
Unlisted	177,188	110,400	-	-
	177,188	319,859	-	-
Club debenture	1,538	1,538	825	825
Total	513,408	824,997	19,517	19,517
	THE GROUP		THE COMPANY	
	Other investments		Other investments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total and reported as:				
Listed				
Hong Kong	214,248	207,671	-	-
Elsewhere	47,155	318,163	-	-
Unlisted	252,005	299,163	19,517	19,517
	513,408	824,997	19,517	19,517
Classified under				
Current	40,000	67,800	-	-
Non-current	473,408	757,197	19,517	19,517
	513,408	824,997	19,517	19,517
Market value of listed securities	261,403	525,834	-	-

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

23. INVESTMENTS IN SECURITIES – *continued*

The carrying value of listed securities in Hong Kong at 31st December, 2001 included an amount of HK\$71,005,500 and HK\$60,834,000 (2000: HK\$Nil and HK\$74,178,000) representing 9.16% and 10% (2000: Nil and 10.01%) interest in Panva Gas Holdings Limited (“Panva Gas”) and Ming Pao Enterprises Corporation Limited (“Ming Pao”), respectively. Panva Gas and Ming Pao are incorporated in Cayman Islands and Bermuda respectively and both are listed on the Hong Kong Stock Exchange.

The carrying value of the overseas listed debt securities at 31st December, 2000 represented PCCW convertible bonds (“PCCW Bond”). The PCCW Bond is guaranteed by PCCW, carries interest at 3.5% per annum, matures on 5th December, 2005 and will be redeemed at 120.12 per cent of the principal amount together with accrued interest.

Unless previously redeemed or purchased and cancelled, the PCCW Bond entitles the holders at any time after 5th January, 2001 up to 21st November, 2005 to convert the PCCW Bond into shares of PCCW at an initial conversion price of US\$1.0083 per share (equivalent to approximately HK\$7.865 per share), subject to adjustment.

The PCCW Bond were fully disposed of during the year.

The carrying value of the unlisted debt securities at 31st December, 2001 included an investment of HK\$52,585,000 in convertible bond (“G-Prop Bond”) issued by G-Prop (Holdings) Limited, a company listed on the Hong Kong Stock Exchange. The G-Prop Bond is non-interest bearing and is due to redeem on 10th December, 2004 at HK\$57,000,000. It entitled the holders at any time after 10th December, 2001 and up to 10th December, 2004 to convert the G-Prop Bond into shares in G-Prop (Holdings) limited at a conversion price of HK\$0.28 per share (subject to adjustment).

The carrying value of G-Prop Bond at 31st December, 2000 of HK\$50,400,000 carried interest of 7.5% per annum and was fully redeemed by G-Prop (Holdings) Limited during the year.

The carrying value of the unlisted debt securities at 31st December, 2001 also included promissory note of HK\$40,000,000 (2000: HK\$60,000,000) to a third party carries interest at prevailing market rate per annum, and secured by shares in China Development Corporation Limited, a company listed on the Stock Exchange of Hong Kong.

24. LOANS FROM/TO MINORITY SHAREHOLDERS

THE GROUP

The amounts are unsecured, non-interest bearing and will not be repaid within one year and are therefore shown as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

25. PROPERTIES HELD FOR SALE

THE GROUP

Properties held for sale were carried at net realisable value.

In respect of properties held for sale with a carrying amount of approximately HK\$28,000,000, the transfer of title to the land use right and property ownership has not yet been completed at the balance sheet date. The Group has paid the full amount of the consideration in accordance with the sale and purchase agreement and in the opinion of the directors, such transfer will be completed in due course.

With reference to the valuation made by CB Richard Ellis Limited and RHL Appraisal Limited, both are independent firms of professional property valuers, on an open market basis. An impairment loss of approximately HK\$11,081,000 has been identified which has been recognised in the consolidated income statement in the current year.

26. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	312,952	268,242
Work in progress	19,007	30,842
Finished goods	458,329	570,249
	790,288	869,333

Included above are raw materials of HK\$312,952,000 (2000: HK\$268,242,000), work in progress of HK\$19,007,000 (2000: HK\$30,842,000) and finished goods of HK\$458,329,000 (2000: HK\$568,099,000) which are carried at their net realisable value.

The cost of inventories recognised as an expense during the year was approximately HK\$2,771,566,000 (2000: HK\$2,751,170,000).

27. TRADE DEBTORS

The Group allows its trade customers with credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the balance sheet date is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 – 90 days	330,169	323,133
90 – 180 days	93,564	244,787
Over 180 days	57,291	99,897
	481,024	667,817

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

28. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are creditors with the following aged analysis:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0-90 days	278,148	322,077
90-180 days	43,876	82,623
Over 180 days	75,570	96,901
	397,594	501,601
Add: Accrued charges	34,291	172,965
	431,885	674,566

29. PAYABLES DUE TO RELATED COMPANIES

Details of the payables due to related companies are as follows:

	Notes	THE GROUP		THE COMPANY	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Mass Success					
International Limited	(i)	594	–	594	–
Hanny Magnetics Limited	(i)	1,234	–	151	–
ITC Management Limited	(ii)	29,539	–	328	–
Paul Y. – ITC					
Management Limited	(i)	127	–	–	–
Paul Y. – ITC Construction					
Company Limited	(i)	3,634	–	–	–
Tai Shan Paul Y.					
Construction Co., Ltd.	(i)	1,364	–	–	–
		36,492	–	1,073	–

Included in the amounts were payables due to Hanny Magnetics Limited and ITC Management Limited of HK\$1,083,000 and HK\$26,267,000 respectively, which carry interest at prevailing market rate. The remaining amounts are unsecured, non-interest bearing and repayable on demand.

Notes:

- (i) The companies are wholly-owned subsidiaries of substantial shareholders of the Company.
- (ii) ITC Management Limited is a wholly owned subsidiary of ITC Corporation Limited, shareholder of the Company's substantial shareholder.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

30. SHARE CAPITAL

	Notes	Number of shares	Value HK\$'000
Authorised:			
Ordinary shares of HK\$0.10 each at 31st December, 2000 and 1st January, 2001		8,000,000,000	800,000
Consolidation of shares	(b)	(7,200,000,000)	–
Ordinary shares of HK\$1.00 each Adjustment of nominal value	(b)	800,000,000 –	800,000 (720,000)
Ordinary shares of HK\$0.10 each Additions	(b)	800,000,000 7,200,000,000	80,000 720,000
Ordinary shares of HK\$0.10 each at 31st December, 2001		8,000,000,000	800,000
Issued and fully paid:			
Ordinary shares of HK\$0.10 each at 1st January, 2000		4,480,289,420	448,029
Exercise of share options	(a)	129,500,000	12,950
Ordinary shares of HK\$0.10 each at 1st January, 2001		4,609,789,420	460,979
Consolidation of shares	(b)	(4,148,810,478)	–
Ordinary shares of HK\$1.00 each Adjustment of nominal value	(b)	460,978,942 –	460,979 (414,881)
Ordinary shares of HK\$0.10 each at 31st December, 2001		460,978,942	46,098

Notes:

- (a) During the year ended 31st December, 2000, the Company issued and allotted 47,000,000, 32,500,000 and 50,000,000 shares of HK\$0.10 each in the Company for cash at HK\$0.3, HK\$0.344 and HK\$0.405 per share respectively as a result of the exercise of share options. The shares issued rank pari passu with the then existing shares in issue in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

30. SHARE CAPITAL – continued

Notes: – continued

(b) Pursuant to resolutions passed by the shareholders of the Company in an extraordinary general meeting held on 18th June, 2001, the Company carried out the following capital reorganisation (“Capital Reorganisation”):

- Every ten ordinary shares of HK\$0.10 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$1.00 each (“Consolidated Share”) (“Share Consolidation”);
- Immediately following the Share Consolidation, the nominal value of the issued and unissued Consolidated Shares was reduced from HK\$1.00 to HK\$0.10 each (“Capital Reduction”);
- The credit of approximately HK\$415 million arisen as a result of the Capital Reduction was credited to the special capital reserve account of the Company;
- Upon the Capital Reduction becoming effective, the authorised capital of the Company was increased from HK\$80,000,000 to HK\$800,000,000 by the creation of an additional 7,200,000,000 ordinary shares of HK\$0.10 each.

Details of the Capital Reorganisation were set out in the circular to the Company’s shareholders dated 23rd May, 2001 and were approved by the High Court of the Hong Kong Special Administrative Region on 31st July, 2001.

31. SHARE OPTIONS

THE COMPANY

At 31st December, 2001, the options to subscribe for shares were outstanding under the Company’s share option scheme are as follows:

Exercisable period	Exercise price HK\$	Outstanding at 31.12.2001
21.7.1998 to 20.7.2002	6.060	36,750
12.01.2000 to 11.01.2005	3.440	50,000
14.02.2000 to 13.02.2005	4.050	290,000
		<hr/>
		376,750
		<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

31. SHARE OPTIONS – *continued* SUBSIDIARY

China Enterprises

At 31st December, 2001, the options to subscribe for shares were outstanding under the share option scheme of China Enterprises are as follows:

Exercisable period	Exercise price US\$	Outstanding at 31.12.2001
3.2.2000 to 2.2.2010	9.9375	20,000

China Land

No options under the share option scheme were granted or exercised during the year and no options were outstanding as at 31st December, 2001.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

32. RESERVES

	Share premium	Special capital reserve	Capital redemption reserve	Goodwill on con- solidation	Exchange reserve	Other non-dis- tributable reserves	Retained profits (deficit)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
At 1st January, 2000								
- as originally reported	1,844,149	-	233	30,693	16,844	34,368	1,002,159	2,928,446
- Prior period adjustment (note 2)	-	-	-	-	-	-	46,098	46,098
As restated	1,844,149	-	233	30,693	16,844	34,368	1,048,257	2,974,544
Exchange adjustment	-	-	-	-	(1,223)	-	-	(1,223)
Premium on issue of shares	32,580	-	-	-	-	-	-	32,580
Arising on acquisition of interests in subsidiaries and associates	-	-	-	157,581	-	-	-	157,581
Impairment loss of goodwill of an associate	-	-	-	26,724	-	-	-	26,724
Realised on disposal of interest in subsidiaries	-	-	-	(3,958)	(691)	(3,151)	-	(7,800)
Realised on disposal/dilution of interest in associates	-	-	-	3,751	(2,735)	(557)	-	459
Share of net reserves movement of associates	-	-	-	(12,097)	(7,317)	2,204	-	(17,210)
Appropriated from retained profits	-	-	-	-	-	1,539	(1,539)	-
Net loss for the year	-	-	-	-	-	-	(730,682)	(730,682)
Dividend (note 2)	-	-	-	-	-	-	(46,098)	(46,098)
At 31st December, 2000	1,876,729	-	233	202,694	4,878	34,403	269,938	2,388,875
Exchange adjustment	-	-	-	-	(7,277)	-	-	(7,277)
Arising from Capital Reorganisation (note 30)	-	414,881	-	-	-	-	-	414,881
Impairment loss of goodwill of subsidiaries and associates	-	-	-	14,005	-	-	-	14,005
Realised on disposal/dilution of interest in subsidiaries	-	-	-	(25,262)	(650)	(11,078)	-	(36,990)
Share of net reserves movement of associates	-	-	-	-	(72)	-	-	(72)
Appropriated from retained profits	-	-	-	-	-	12,068	(12,068)	-
Net loss for the year	-	-	-	-	-	-	(598,730)	(598,730)
At 31st December, 2001	1,876,729	414,881	233	191,437	(3,121)	35,393	(340,860)	2,174,692
Attributable to:								
The Company and its subsidiaries	1,876,729	414,881	233	194,547	(3,111)	35,393	(245,191)	2,273,481
Associates	-	-	-	(3,110)	(10)	-	(95,669)	(98,789)
	1,876,729	414,881	233	191,437	(3,121)	35,393	(340,860)	2,174,692

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

32. RESERVES – continued

	Share premium HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE COMPANY					
At 1st January, 2000	1,844,149	–	233	145,713	1,990,095
Prior period adjustment (note 2)	–	–	–	46,098	46,098
As restated	1,844,149	–	233	191,811	2,036,193
Premium on issue of shares	32,580	–	–	–	32,580
Net loss for the year	–	–	–	(569,315)	(569,315)
Dividend (note 2)	–	–	–	(46,098)	(46,098)
At 31st December, 2000	1,876,729	–	233	(423,602)	1,453,360
Arising from Capital Reorganisation (Note 30)	–	414,881	–	–	414,881
Net loss for the year	–	–	–	(621,305)	(621,305)
At 31st December, 2001	1,876,729	414,881	233	(1,044,907)	1,246,936

The other non-distributable reserves of the Group include statutory reserves required to be appropriated from the profit after taxation of the Company's PRC subsidiaries under PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' board of directors.

Included in goodwill on consolidation as at 31st December, 2001, HK\$19,316,000 (2000: HK\$33,321,000) and HK\$210,753,000 (2000: HK\$236,015,000) represented goodwill and negative goodwill arising on acquisition of subsidiaries and associates respectively.

The special capital reserve of the Group represents the amount arising from the Capital Reduction as described in note 30(b).

During the year, the management of the Group reviewed the carrying amount of goodwill with reference to the business operated by those subsidiaries and associates. Those subsidiaries and associates are mainly engaged in the provision of e-commerce solution services and in view of the current economic condition in these businesses, full amount of impairment loss of HK\$14,005,000 has been identified and recognised in the consolidated income statement.

At 31st December, 2001 and 2000, the Company had no reserves available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

33. DEFERRED TAXATION

The major components of the deferred taxation (credit) charge not recognised for the year are as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:				
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	393	(216)	187	(6)
Tax loss (arising) utilised	(109,097)	(15,295)	1,273	18,665
Other timing differences	(193)	–	(325,368)	–
Impairment and revaluation losses on properties	(476)	–	–	–
	(109,373)	(15,511)	(323,908)	18,659

At the balance sheet date, the major components of the deferred taxation asset (liability), not recognised in the financial statements, are as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:				
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	(6,166)	(5,773)	(527)	(340)
Unutilised tax losses	307,696	198,599	22,000	23,273
Other timing differences	5,462	5,269	333,000	7,632
Impairment and revaluation losses on properties	11,333	10,857	–	–
	318,325	208,952	354,473	30,565

The deferred taxation asset is not recognised because it is uncertain whether the tax benefit will be realised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

34. BANK LOANS AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans	1,515,206	1,932,970	20,000	–
Obligations under hire purchase contracts (<i>Note</i>)	187	–	46	–
Bank overdrafts	–	11,902	–	8,798
Other borrowings	–	1,886	–	–
	1,515,393	1,946,758	20,046	8,798
Repayable as follows:				
Within one year	922,272	1,351,545	20,011	8,798
Between one and two years	53,754	48,080	35	–
Between two and five years	24,386	32,152	–	–
Over five years	514,981	514,981	–	–
	1,515,393	1,946,758	20,046	8,798
Less: Amount due within one year included under current liabilities	(922,272)	(1,351,545)	(20,011)	(8,798)
Amount due after one year	593,121	595,213	35	–

Of the bank loans and other borrowings of the Group, HK\$672,735,000 (2000: HK\$1,298,298,000) are secured by property, plant and equipment and bank deposits of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

34. BANK LOANS AND OTHER BORROWINGS – *continued*

Note:

	Minimum lease payments				Present value of minimum lease payments			
	THE GROUP		THE COMPANY		THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts payable under hire purchase contracts:								
Within one year	24	-	14	-	14	-	11	-
In the second to fifth years inclusive	189	-	47	-	173	-	35	-
	213	-	61	-	187	-	46	-
Less: Future finance charges	(26)	-	(15)	-	-	-	-	-
Present value of lease obligations	187	-	46	-	187	-	46	-
Less: Amount due within one year					(14)	-	(11)	-
Amount due after one year					173	-	35	-

It is the Group's policy to lease certain of its fixtures and equipment under hire purchase contracts. The average term of hire purchase contract is 5 years. Interest rate is fixed at the contract date. All hire purchase contracts are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under hire purchase contract are secured by the lessor's charge on the hired assets.

35. DEPOSITS RECEIVED

THE GROUP

The amounts represent deposits received in connection with the pre-sale of certain properties under/held for development. The deposits will be transferred to the income statement upon the execution of the binding sale and purchase agreements.

In the opinion of the directors, the binding sale and purchase agreements are unlikely to be executed within one year and the deposits are therefore shown in the balance sheet as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

36. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Loss before taxation	(1,001,147)	(812,883)
Share of results of associates	17,997	12,147
Dividend income	(5,509)	(6,509)
Interest income	(71,725)	(114,714)
Interest expenses	81,462	88,487
Depreciation of property, plant and equipment	140,743	110,944
Amortisation of intangible asset	4,934	448
Amortisation of goodwill	495	–
Unrealised loss on investments in securities	139,972	482,656
Loss on disposal of investments in securities	15,182	260,946
Allowance for bad and doubtful debts	84,972	11,382
Impairment and revaluation loss of property, plant and equipment	529,041	–
Impairment loss of goodwill of subsidiaries and associates	14,005	26,724
Impairment loss of interest in an associate	3,587	–
Impairment loss of properties under/held for development	28,793	–
Deficit arising on the revaluation of investment properties	19,977	–
Impairment loss recognised in respect of properties held for sale	11,081	–
Impairment loss recognised in respect of inventories	10,012	42,277
Impairment loss recognised in respect of loan and interest receivables	50,413	46,000
Loss on disposal of property, plant and equipment	2,827	310
Gain on disposal/dilution of interests in subsidiaries /business	(63,047)	(24,692)
Gain on disposal/dilution of interest in associates	–	(14,977)
Write-back of allowance for bad debts	(10,390)	(9,754)
Loss on disposal of investment properties	50	–
Increase in inventories	(57,621)	(92,242)
Increase in trade debtors	(11,759)	(53,815)
Decrease in properties held for sale	70,300	16,000
Increase in other receivables, deposits and prepayments	(109,333)	(160,084)
Increase in creditors, accrued charges and other payables	198,178	338,005
(Decrease) increase in other tax payable	(7,614)	14,133
Decrease in deposits received	–	(3,447)
Net cash inflow from operating activities	85,876	157,342

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

37. DISPOSAL/DILUTION OF SUBSIDIARIES/BUSINESS

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Investment properties	84,510	51,954
Property, plant and equipment	189,164	109,152
Goodwill	19,909	–
Intangible asset	102,274	–
Investments in securities	26,262	–
Interest in associates	19,432	–
Inventories	197,426	15,548
Trade debtors	175,958	93,406
Other receivables, deposits and prepayments	240,996	84,922
Bank balances and cash	76,490	22,503
Creditors and accrued charges	(402,133)	(136,735)
Income and other taxes payable	(75)	–
Bank loans and other borrowings	(314,750)	(61,465)
Minority interests	(35,268)	(76,472)
	380,195	102,813
Goodwill reserve realised	(25,262)	(3,958)
Exchange reserve realised	(650)	(691)
Other non-distributable reserves realised	(11,078)	(3,151)
	343,205	95,013
Gain on disposal/dilution	63,047	24,692
	406,252	119,705
Satisfied by:		
Cash	360,296	68,999
Other receivables	–	32,015
Investments in securities	–	18,691
Interest in associates	9,556	–
Receivables	36,400	–
	406,252	119,705
Analysis of the net inflow of cash and cash equivalents in connection with the disposal/dilution of subsidiaries /business:		
Cash consideration received	360,296	68,999
Bank balances and cash disposed of	(76,490)	(22,503)
Net inflow of cash and cash equivalents	283,806	46,496

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

37. DISPOSAL/DILUTION OF SUBSIDIARIES/BUSINESS – *continued*

The subsidiaries disposed of during the year contributed cash outflow of HK\$122,484,000 (2000: cash outflow of HK\$6,288,000) to the Group's net operating cash outflow, paid tax liabilities of HK\$1,721,000 in 2000, received HK\$5,994,000 in respect of investing activities (2000: paid HK\$1,787,000) and received HK\$98,504,000 in respect of financing activities (2000: HK\$12,217,000).

The subsidiaries/business disposed of during the year contributed HK\$132,311,000 (2000: HK\$30,241,000) to the Group's turnover, and HK\$31,663,000 (2000: HK\$168,000) to the Group's loss from operations.

38. PURCHASE OF SUBSIDIARIES/BUSINESS

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Investment properties	96,510	71,818
Property, plant and equipment	77,071	1,428,425
Intangible asset	–	107,656
Interest in associates	19,466	–
Property under development	–	173,869
Properties held for sale	83,180	4,073
Investments in securities	54,599	35,563
Receivables	44,201	–
Inventories	70,771	1,205
Trade debtors	27,304	7,462
Other receivables, deposits and prepayments	150,390	–
Loan to minority shareholders	–	28,074
Tax recoverable	129	–
Advances to contractors	–	169,082
Bank balances and cash	52,568	177,325
Creditors and accrued charges	(109,964)	(138,636)
Deposits received	–	(80,085)
Bank loans and other borrowings	(104,941)	(457,665)
Obligations under hire purchase contracts	(143)	–
Minority interests	(51,738)	(549,164)
	409,403	979,002
Goodwill arising on acquisition	53,112	(170,114)
	462,515	808,888
Satisfied by:		
Cash	407,018	703,637
Interest in an associate	37,032	92,711
Investments in securities	–	12,540
Other receivables, deposits and prepayments	18,465	–
	462,515	808,888

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

38. PURCHASE OF SUBSIDIARIES/BUSINESS – *continued*

Analysis of the net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries/business:

	2001 HK\$'000	2000 HK\$'000
Cash consideration paid	(407,018)	(703,637)
Bank balances and cash acquired	52,568	177,325
Net cash outflow of cash and cash equivalents in connection with the purchase of subsidiaries/business	(354,450)	(526,312)

The subsidiaries/business acquired during the year contributed cash outflow of HK\$26,486,000 (2000: HK\$107,130,000) to the Group's net operating cash outflow, paid HK\$16,659,000 in 2000 in respect of net returns on investments and servicing of finance, received refund of income tax of HK\$1,213,000 in 2000, received HK\$6,056,000 (2000: utilised HK\$139,959,000) in respect of investing activities and utilised HK\$3,037,000 (2000: HK\$177,088,000) in respect of financing activities.

The subsidiaries/business acquired during the year contributed HK\$99,967,000 (2000: HK\$66,208,000) to the Group's turnover, and HK\$87,730,000 (2000: HK\$9,074,000) to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Bank loans and other borrowings HK\$'000	Minority shareholders HK\$'000	Amounts due to associates HK\$'000	Payables due to related companies HK\$'000	Obligations under hire purchase contracts HK\$'000
Balance at 1st January, 2000	2,292,178	1,272,327	1,356,532	-	-	-
Proceed on issue of new shares, net of expenses	45,530	-	-	-	-	-
New borrowings obtained	-	1,509,767	-	-	-	-
Contribution from minority shareholders	-	-	15,348	-	-	-
Purchase of additional interest in subsidiaries	-	-	(11,514)	-	-	-
Repayments	-	(1,243,438)	-	-	-	-
Acquisition of subsidiaries /business	-	457,665	549,164	-	-	-
Disposal/partial disposal of subsidiaries	-	(61,465)	(76,472)	-	-	-
Loss attributable to minority shareholders	-	-	(88,809)	-	-	-
Non-cash related movements	-	-	4,748	-	-	-
Dividends paid to minority shareholders	-	-	(23,140)	-	-	-
Balance at 31st December, 2000	2,337,708	1,934,856	1,725,857	-	-	-
Capital Reorganisation	(414,881)	-	-	-	-	-
New borrowings obtained	-	1,183,688	-	-	-	53
Contribution from minority shareholders	-	-	42,602	-	-	-
Repayments	-	(1,393,529)	-	-	(16,917)	(9)
Advance	-	-	-	9,625	53,409	-
Acquisition of subsidiaries /business	-	104,941	51,738	-	-	143
On disposal/partial disposal of subsidiaries	-	(314,750)	(35,268)	-	-	-
Loss attributable to minority shareholders	-	-	(408,399)	-	-	-
Non-cash related movements	-	-	(5,345)	-	-	-
Dividends paid to minority shareholders	-	-	(4,124)	-	-	-
Balance at 31st December, 2001	1,922,827	1,515,206	1,367,061	9,625	36,492	187

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

40. MAJOR NON-CASH TRANSACTIONS

During the year, the major non-cash transactions are as follows:

- (a) Decrease in interest in associates of approximately HK\$37,032,000 and other receivables of approximately HK\$18,465,000 were part of the consideration paid for acquisition of subsidiaries.
- (b) Additions to interest in associates of approximately HK\$9,556,000 and loan receivables of approximately HK\$36,400,000 were part of consideration received for disposal of certain subsidiaries.
- (c) Additions to toll highway of HK\$188,331,000 were transferred from advances to contractors.
- (d) Hire purchase arrangements in respect of property, plant and equipment with a capital value of the contracts amounted to approximately HK\$53,000.
- (e) Investment in securities of approximately HK\$64,295,000 was reclassified as interest in associates following the increase of the Group's interest in the associate.

In 2000, the major non-cash transactions are as follows:

- (a) Addition to investments in securities of HK\$18,691,000 and receivables of HK\$32,015,000 were part of the consideration received from the disposal of a subsidiary. Increase in investments in securities of HK\$7,542,000 was the settlement of an outstanding receivable.

Interest in associates of HK\$4,817,000 was reclassified as investments in securities following the dilution of the Group's interest in the associate.

- (b) Convertible note receivable from an associate of HK\$232,110,000 was set off against the amount of consideration required for the acquisition of interest in a company from the associate.
- (c) Properties under/held for development of HK\$43,009,000 was transferred to properties held for sale.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

41. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Contracted for but not provided in the financial statements in respect of:				
– Land development right	214,254	–	214,254	–
– Property, plant and equipment	18,005	–	–	–
– Properties under/held for development	26,902	23,640	–	–
– Properties under construction	129,393	227,150	–	–
– Construction in progress	10,849	173,849	–	–
	399,403	424,639	214,254	–
Authorised but not contracted for in respect of property, plant and equipment	35,096	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

42. OPERATING LEASE COMMITMENTS

The Group has made approximately HK\$17,432,000 (2000: HK\$10,091,000) minimum lease payments under operating leases during the year in respect of office premises.

The Group as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	26,429	4,802	992	142
In the second to fifth years inclusive	25,482	8,720	-	-
Over five years	1,678	-	-	-
	53,589	13,522	992	142

Lease are negotiated for an average term of two to three years and rentals are fixed for an average of two to three years.

The Group as lessor

Property rental income earned during the year was HK\$11,914,000 (2000: HK\$11,442,000). Certain of the properties have committed tenants for next three to seven years.

At the balance sheet date, the Group had contracted which tenants for the following future minimum lease payments:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Within one year	9,479	11,413
In the second to fifth years inclusive	18,633	18,936
Over five years	994	2,775
	29,106	33,124

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

43. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
(a) Corporate guarantee given by the Company for banking facilities granted to subsidiaries	-	-	95,243	50,000
Extent of the Group's share of facilities utilised in respect of guarantees given to financial institutions to secure credit facilities granted to subsidiaries	-	-	13,000	71,500
Other guarantees issued to:				
Associates	2,357	2,357	-	-
Outsiders	180,725	278,689	780	780
	183,082	281,046	109,023	122,280

(b) The Company granted a guarantee in favour of MTR Corporation Limited ("MTR") in respect of outstanding rent and obligations under the tenancy agreement entered into between Tung Fong Hung Medicine (Retail) Limited, a wholly-owned subsidiary of the Company and MTR for the leased properties.

(c) In August 1999, the architect of Paul Y. Plaza (formerly known as Jiangnan Centre) initiated legal proceedings against Eventic Limited ("Eventic"), a wholly-owned subsidiary of China Land in respect of claim for payment of service fees and other expenses of HK\$0.6 million and HK\$6.6 million respectively.

Eventic has vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided.

In view of the counterclaim made by Eventic, the architect amended its total claims to HK\$7.7 million. At the date of this report, the proceedings are still ongoing. After taking into consideration the advice of China Land's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect on the Group.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

43. CONTINGENT LIABILITIES – *continued*

- (d) In July 2001, Huizhou World Express Property Ltd. (“Huizhou World Express”), an indirect non-wholly owned subsidiary of China Land, initiated legal proceedings against the Huizhou Municipal Government of the Guangdong Province the PRC, in its capacity as the guarantor of Huizhou Jia Cheng Group Co., Ltd. (“Huizhou Jia Cheng”), the main contractor for the construction of Hongkong Macau Square, under a guarantee letter dated 7th September, 1994 executed by the Huizhou Municipal Government in favour of Huizhou World Express. The amount claimed by Huizhou World Express was approximately RMB243.6 million, being the construction costs of approximately RMB167.5 million paid by Huizhou World Express to Huizhou Jia Cheng together with the damages for the amount of approximately RMB76.1 million.

As at the date of this report, Huizhou World Express is waiting for the hearing of the case. At this stage, the outcome cannot be predicted with certainty. As the total construction costs of Hongkong Macau Square has already been written off, the directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Huizhou World Express.

- (e) In November 2001, the purchasers (the “Purchasers”) on certain properties of Hongkong Macau Square, Huizhou according to the pre-sale agreements dated 7th September, 1994 initiated legal proceedings against Huizhou World Express for failure to hand over the properties of Hongkong Macau Square to the Purchasers. The amounts claimed by the Purchasers were approximately HK\$76.6 million, being the pre-sale deposit together with damages of approximately RMB64.2 million and relevant legal expenses.

In January 2002, Huizhou World Express filed in its defences alleging that in accordance with the terms of the above-mentioned agreements, any disputes between the contractual parties should be resolved by means of arbitration. As at the date of the report, the Intermediate People’s Court of Huizhou, Guangdong Province, is still considering the cases. At this stage, the outcome cannot be predicted with certainty and no further provision has been made in the financial statements.

44. PLEDGE OF ASSETS

At 31st December, 2001, the following assets were pledged to secure credit facilities granted to the Group:

- (a) Bank loans and other borrowings – due after one year

Investment properties with a carrying value of HK\$17,630,000 (2000: HK\$32,130,000)

Certain property, plant and equipment with a carrying value of HK\$234,462,000 (2000: HK\$238,033,000)

Investment in security of HK\$5,244,000 (2000: Nil).

Certain shares in associates with carrying value of approximately HK\$53,194,000 (2000: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

44. PLEDGE OF ASSETS – *continued*

(b) Bank loans and other borrowings – due within one year

Bank deposits of HK\$83,520,000 (2000: HK\$612,351,000).

Longchen Xinyuan pledged its right to toll fee income to a bank to secure the credit facilities for the year ended 31st December, 2000 and 2001.

At 31st December, 2000, a subsidiary of China Land issued two debentures in favour of a bank by way of creating a first floating charge on its entire interest in Longchen Xinyuan pledged with a carrying value of HK\$618,999,000 to secure the credit facilities. The debentures were released upon repayment of the bank borrowings during the year.

45. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related companies as follows:

Name of company	Nature of transactions	Notes	2001 HK\$'000	2000 HK\$'000
Pacificnet	Management fee income received and receivable by the Group	(a)	-	1,200
Sing Pao Newspaper Management Limited	Loan interest income received and receivable by the Group	(b)	37	-
Star East Management Limited	Loan interest income received and receivable by the Group	(c)	88	-
Lucklong	Loan interest income received and receivable by the Group	(d)	8,212	-
Danwei	Loan interest income received and receivable by the Group	(d)	9,171	-
Total Pacific Limited	Rental income received and receivable by the Group	(e)	280	-
Mass Success International Limited	Rental expenses paid and payable by the Group	(f)	1,109	-
	Building management fee paid and payable by the Group		277	-
Hanny Magnetics Limited	Management fee paid and payable by the Group	(f)	151	-
	Loan interest expense paid and payable by Group		171	-

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

45. RELATED PARTY TRANSACTIONS – *continued*

Name of company	Nature of transactions	Notes	2001 HK\$'000	2000 HK\$'000
ITC Management Limited	Loan interest paid and payable by the Group	(g)	246	-
Paul Y. – ITC (E & M) Company Limited	Repair and maintenance fee paid and payable by the Group	(f)	33	-
	Purchase of fixed assets by the Group		8	-
	Mechanical and electrical service fee paid and payable by the Group		702	-
Paul Y. – ITC Construction Limited	Interest paid and payable by the Group	(f)	151	-
Super Park Development Limited	Motor vehicles purchased by the Group	(e)	400	-
Star East (Taishan Properties) Limited	Motor vehicles purchased by the Group	(c)	216	-
Gunnell Properties Limited	Rental expenses paid and payable by the Group	(f)	2,386	-
Cycle Company Limited				
Tung Fong Hung	Loan interest income received and receivable by the Group	(h)	105	-
Cargill Private Limited	Proceeds on disposal of motor vehicles received and receivable by the Group	(i)	1,826	-

Notes:

- (a) Pacificnet is an associate of the Group.
- (b) Sing Pao Newspaper Management Limited is a wholly-owned subsidiary of an associate of the Group.
- (c) Star East Management Limited and Star East (Taishan Properties) Limited are wholly-owned subsidiaries of Star East Holdings Limited, in which certain directors of the Company had beneficiary interest.
- (d) Danwei and Lucklong are companies, in which certain directors of the Company are the directors of their ultimate holding company and the directors of Danwei and Lucklong.
- (e) Total Pacific Limited and Super Park Development Limited are wholly-owned subsidiaries of a former associate of the Group.
- (f) Mass Success International Limited, Hanny Magnetics Limited, Paul Y. (E & M) Company Limited, Paul Y. – ITC Construction Limited, Gunnell Properties Limited and Cycle Company Limited are wholly-owned subsidiaries of a substantial shareholder of the Company.
- (g) ITC Management Limited is the shareholder of the Company's substantial shareholder.
- (h) Tung Fong Hung is a former associate of the Group.
- (i) Cargill Private Limited is an associate of Mr. Oei Hong Leong, an ex-director of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

45. RELATED PARTY TRANSACTIONS – *continued*

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 22 and 29.

In the opinion of the directors, the above transactions were undertaken in the ordinary course of business transactions and the terms were mutually agreed between the Group and the related parties.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the end of the year.

46. RETIREMENT BENEFIT SCHEME

The Company and its subsidiaries in Hong Kong do not operate retirement schemes covering their local permanent employees before 1st December, 2000. The amount of provision for long service payments and the related charge to the income statement for the year ended 31st December, 2000 are immaterial.

With effect from 1st December, 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contributions payables in the future years.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the schemes.

The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are charged to the income statement.

The employees in the joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The joint venture companies are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

At the balance sheet date, there were no significant forfeited contributions which arose upon employees leaving the scheme prior to their interests in the Group's contributions becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

NOTES TO THE FINANCIAL STATEMENTS

For The Year ended 31st December, 2001

47. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date:

- (a) China Enterprises, a subsidiary of the Company, through a wholly-owned subsidiary, entered into agreement to acquire approximately 4,800,000,000 new ordinary shares of HK\$0.01 each in Ananda Wing On Travel (Holdings) Limited ("Ananda Wing On"), a company listed on the Hong Kong Stock Exchange, for a consideration of approximately HK\$129,600,000.

China Enterprises also entered into agreements with Ananda Wing On whereby Ananda Wing On agreed to issue convertible note with principal amount of HK\$120,000,000 to China Enterprises.

The transactions has not yet been completed at the date of this financial statements.

- (b) China Land, a subsidiary of the Company, announced that the agreement entered by the wholly-owned subsidiary of China Land on 13th July, 2001 regarding the acquisition of certain properties in Beijing, the PRC, at an aggregate consideration of approximately HK\$188 million has become null and void as the results of the due diligence investigation of the properties were not up to the reasonable satisfaction to China Land.

On the same date, China Land also announced that a non wholly-owned subsidiary of China Land renounced the options agreed to grant to that subsidiary on 13th July, 2001 to acquire the development rights for up to 600,000 square meters, being the intended total gross floor area of Phase III of Jiulong Garden in Beijing, the PRC, at a consideration of RMB1,700 per square meter due to non-fulfilment of the condition set out in the agreement in relation to the options.

- (c) Pursuant to a resolution passed at a board of directors' meeting of the Company held on 14th March, 2002, the Company proposed to issue not less than 921,957,884 new shares of HK\$0.10 each by way of rights issue ("Rights Issue") at a subscription price of HK\$0.15 per share to the existing shareholders, in the proportion of two rights shares for every one existing share held, with the bonus issue of warrants.

The bonus issue of warrants will be issued to the shareholders under the Rights Issue on the basis of three units of subscription rights with initial subscription price of HK\$0.17 each of every ten new shares taken up.

The transactions have not yet been completed at the date of this financial statements.