Notes to Financial Statements

31st July, 2002

1. CORPORATE INFORMATION

The registered office of the Company is located at Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

The principal activities of the Group have not changed during the year and consisted of property development for sale and property investment for rental purposes.

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

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

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"
- Interpretataion 14: "Evaluating the substance of transactions involving the legal form of a lease"
- Interpretataion 15: "Business combinations - date of exchange and fair value of equity instruments"
- Interpretataion 16: "Disclosure - service concession arrangements"
- Interpretataion 17: "Revenue - barter transactions involving advertising services"

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

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

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

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in notes 3 and 28 to the financial statements. The required new additional disclosures are included in note 28 to the financial statements.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

Subsidiaries

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

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

Associates

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

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

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

Certain interest on loans borrowed for investments in associates engaged in property development is capitalised in the Group's share of the net assets of the associates.

Joint venture companies

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

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

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life, less any impairment losses. In prior years, goodwill arising on the acquisition of an associate was amortised on the straight-line basis over a period of 40 years, which was determined by the directors with reference to the estimated future economics benefits to be generated from the associate. The unamortised portion of such goodwill arising on the acquisition of the associate was fully written off in the prior year. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1st August, 2001, to remain eliminated against consolidated reserves, further details of which are included in note 28 to the financial statements. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

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

Negative goodwill

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

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

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1st August, 2001, to remain credited to the capital reserve, further details of which are included in note 28 to the financial statements. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

Impairment of assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

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

Leasehold land and buildings	Over the lease terms
Leasehold improvements	20%
Furniture, fixtures and equipment	18% - 20%
Motor vehicles	18% - 25%
Computers	18% - 25%

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development

(a) Properties under development held for investment potential are stated at their open market value on the basis of annual professional valuations.

Changes in the values of such properties under development which have been revalued are dealt with as movements in the revaluation reserve of properties under development held for investment potential. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On completion, the properties are transferred to investment properties.

On disposal of a property under development which has been revalued, the relevant portion of the revaluation reserve of properties under development held for investment potential realised in respect of previous valuations is released to the profit and loss account.

(b) Properties under development held for purposes other than investment potential are stated at cost less any impairment losses.

Where pre-sale of properties has commenced, properties under development held for purposes other than investment potential are stated at cost plus attributable profits (recognised on the basis set out under the heading "Revenue recognition" in this note) less the attributable sale instalments received and receivable.

Cost of properties in the course of development comprises land cost, fees for land use rights, construction costs, financing and other related expenses capitalised during the development period.

Completed properties for sale

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

Leased assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) from the sale of completed properties for sale, upon the establishment of a binding contract in respect of the sale of properties or upon the issue of a completion certificate by the relevant government authorities, whichever is the later;

(b) from the pre-sale of properties under development, when a binding contract in respect of the sale of properties has been executed and the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, the attributable revenues and profits on the pre-sold portion of the properties under development, being a proportion of the total revenues and profits expected on completion, are recognised over the course of the development. The proportion used is calculated by reference to the lower of:

   (i) the percentage of the total construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowance for contingencies); and

   (ii) the proportion of the actual cash received to the total sales consideration.

   Where purchasers fail to pay the balances of the purchase price on completion and the Group exercises its right to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profit and the profits recognised so far are reversed;

(c) rental income is recognised in the period in which the properties are let and on a straight-line basis over the lease terms;

(d) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(e) management fee income is recognised when services are rendered.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rates for the year are based on the specific attributable borrowing costs of the borrowings. 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 charged to the profit and loss account in the period in which they are incurred.

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme has operated since 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Prior to the Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "prior scheme") for its employees who were eligible and had elected to participate in the scheme. This prior scheme operated in a similar way to the Scheme, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. With effect from 1st December, 2000, the prior scheme was terminated.

The employees of the Group's subsidiaries which operate in the Mainland China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. Those PRC subsidiaries are required to contribute 20% to 22.5% of its payroll costs to the central pension scheme.

Foreign currencies

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

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

Deferred tax

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

Cash equivalents

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

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

4. SEGMENT INFORMATION

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

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

(a) the property development segment engages in the development of properties in the PRC; and

(b) the property investment segment invests in service apartments, commercial and office buildings in the PRC for their rental income potential.

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

No geographical segment information is presented as over 90% of the Group's customers and assets are located in the PRC.

Notes to Financial Statements

31st July, 2002

4. SEGMENT INFORMATION (continued)

Business segments

Group

	Property development		Property investment		Consolidated	
	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:						
Sales to external customers	43,064	76,349	—	—	43,064	76,349
Rental income	—	—	99,446	85,394	99,446	85,394
Other revenue	1,856	—	19,596	19,099	21,452	19,099
Total	44,920	76,349	119,042	104,493	163,962	180,842
Segment results	(5,815)	(13,013)	54,292	49,076	48,477	36,063
Interest income					37,709	49,225
Unallocated expenses					(9,982)	(20,663)
Overprovision for completed properties for sale		5,000			—	5,000
Overprovision for properties under development held for purposes other than investment potential		3,982			—	3,982
Profit from operating activities					76,204	73,607
Finance costs					(57,960)	(139,973)
Share of losses of associates			(43,742)	(44,718)	(43,742)	(44,718)
Impairment loss in amount due from an associate			(18,916)	(17,787)	(18,916)	(17,787)
Write-off of unamortised goodwill on acquisition of an associate				(36,993)	—	(36,993)
Impairment loss in interests in jointly-controlled entities	(45,057)				(45,057)	—
Loss before tax					(89,471)	(165,864)
Tax					(2,352)	2,068
Loss before minority interests					(91,823)	(163,796)
Minority interests					(2,153)	(823)
Net loss from ordinary activites attributable to shareholders					(93,976)	(164,619)

Notes to Financial Statements

31st July, 2002

4. SEGMENT INFORMATION (continued)

Business segments

Group

	Property development 2002 HK$'000	Property development 2001 HK$'000	Property investment 2002 HK$'000	Property investment 2001 HK$'000	Consolidated 2002 HK$'000	Consolidated 2001 HK$'000
Segment assets	844,875	861,289	5,506,990	5,641,466	6,351,865	6,502,755
Interests in associates	—	—	599,908	624,178	599,908	624,178
Interests in jointly-controlled entities	5,118	50,127	—	—	5,118	50,127
Unallocated assets					54,146	40,312
Total assets					7,011,037	7,217,372
Segment liabilities	80,249	158,086	77,030	70,234	157,279	228,320
Unallocated liabilities					1,165,175	1,113,789
Total liabilities					1,322,454	1,342,109
Other segment information:						
Depreciation	—	—	2,927	1,835	2,927	1,835
Amortisation of goodwill arising on acquisition of an associate	—	—	—	1,156	—	1,156
Write back of provision for doubtful debts	—	—	—	(3,211)	—	(3,211)
Deficit on revaluation of investment properties	—	—	12,009	29,305	12,009	29,305
Deficit on revaluation of properties under development held for investment potential	—	—	158,849	46,027	158,849	46,027
Capital expenditure	9,517	8,492	56,507	106,046	66,024	114,538

Notes to Financial Statements

31st July, 2002

5. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2002	2001
		HK$'000	HK$'000
Interest income from an associate	(i)	36,919	45,088
Interest expense on loans from a substantial shareholder	(ii)	2,318	1,703
Rental expense paid to an associate of Lai Sun Garment (International) Limited	(iii)	344	—

(i) Interest is charged on an advance to an associate at Hong Kong dollar prime rate plus 2% per annum. Details of the advance are included in note 18 to the financial statements.

(ii) Interest is charged on the loans from a substantial shareholder. Details of the loans granted are included in note 25 to the financial statements.

(iii) The annual rental charge was calculated by reference to the prevailing open market rentals.

6. TURNOVER AND REVENUE

The Group is principally engaged in property development and property investment. Turnover comprises proceeds from the sale of completed properties for sale and rental income from investment properties. An analysis of turnover and other revenue is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Turnover:		
Sale of completed properties for sale	43,064	76,349
Rental income from investment properties	99,446	85,394
	142,510	161,743
Other revenue:		
Management fee income	18,489	19,099
Interest income from:		
Bank deposits	790	2,360
An associate	36,919	45,088
Others	—	1,777
Other income	2,963	—
	59,161	68,324
	201,671	230,067

Notes to Financial Statements

31st July, 2002

7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2002	2001
	HK$'000	HK$'000
Auditors' remuneration	700	650
Cost of completed properties for sale	49,249	81,841
Depreciation	3,092	1,897
Outgoings in respect of rental income	31,331	15,974
Guaranteed rental returns	165	184
Minimum lease payments under operating leases in respect of land and buildings (Note (a))	344	443
Staff costs (Note (b)) (including directors' remuneration - note 9):		
Wages and salaries	10,197	13,406
Pension scheme contributions	227	490
Less: Forfeited contributions	(253)	(44)
	10,171	13,852
Amortisation of goodwill arising on acquisition of an associate	—	1,156
Loss on disposal of fixed assets	9	508
Write back of provision for doubtful debts	—	(3,211)
Foreign exchange gains, net	(57)	(16)

Notes:

		2002	2001
		HK$'000	HK$'000
(a)	Minimum lease payments under operating leases in respect of land and buildings	344	2,216
	Capitalised in properties under development	—	(1,773)
		344	443
(b)	Staff costs	17,174	26,879
	Capitalised in properties under development	(7,003)	(13,027)
		10,171	13,852

Notes to Financial Statements

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8. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest expenses on:		
Bank loans wholly repayable within five years	14,559	18,351
Bank loans wholly repayable beyond five years	40,571	—
Amounts due to minority shareholders	—	517
Convertible guaranteed bonds and convertible note	—	89,181
Loans from a substantial shareholder	2,318	1,703
Provision for premium on convertible note redemption	—	38,333
Bank charges	4,983	7,035
	62,431	155,120
Less:		
Amounts capitalised in properties under development	(4,471)	(12,708)
Amounts capitalised in associates engaged in property development	—	(2,439)
	57,960	139,973

During the current year, the Group had no funds that were borrowed generally and used for the purpose of financing properties under development. In the prior year, to the extent funds were borrowed generally and used for the purpose of financing certain properties under development, the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation as part of the costs of these properties under development was 5.8% per annum.

9. DIRECTORS' REMUNERATION

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

	Group	
	2002	2001
	HK$'000	HK$'000
Fees	225	128
Salaries, allowances and benefits in kind	2,920	7,801
Pension scheme contributions	22	11
	3,167	7,940
Capitalised in properties under development	(2,336)	(6,352)
	831	1,588

Fees include HK$120,000 (2001: HK$128,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil - HK$1,000,000	14	13
HK$1,000,001 - HK$1,500,000	1	2
HK$1,500,001 - HK$2,000,000	—	1
HK$2,500,001 - HK$3,000,000	—	1
	15	17

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

Notes to Financial Statements

31st July, 2002

10. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2002	2001
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	1,565	897
Pension scheme contributions	12	36
	1,577	933
Capitalised in properties under development	(550)	(747)
	1,027	186

The remuneration of the non-director, highest paid employees fell within the band of nil to HK$1,000,000 during the years ended 31st July, 2002 and 2001.

11. TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2001: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2002	2001
	HK$'000	HK$'000
Charge for the year for the PRC profits tax	3,000	—
Overprovision of the PRC profits tax in prior years	(648)	(2,068)
Tax charge/(credit) for the year	2,352	(2,068)

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31st July, 2002

11. TAX (continued)

In connection with listing of the Company on The Stock Exchange of Hong Kong Limited (currently on the Main Board) (the "Listing"), tax indemnity deeds were signed on 12th November, 1997, pursuant to which LSD has undertaken to indemnify the Group in respect of certain potential the PRC income taxes and land appreciation taxes ("LAT") payable or shared by the Group in consequence of the disposal of any of the property interests attributable to the Group through its subsidiaries and its associates as at 31st October, 1997 ("Property Interests"). These tax indemnities given by LSD apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited as at 31st October, 1997 (the "Valuation") and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997 together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

The indemnity deeds assume that the Property Interests are disposed of at the value attributed to them in the Valuation, computed by reference to the rates and legislation governing the PRC income tax and LAT prevailing at the time of the Valuation. The indemnities given by LSD do not cover (i) new properties acquired by the Group subsequent to the Listing; (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of the Group as set out in the Company's prospectus dated 18th November, 1997.

The Group had no LAT payable during the year. No income tax payable by the Group was indemnifiable by LSD during the year.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31st July, 2002 was HK$7,459,000 (2001: HK$121,016,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$93,976,000 (2001: HK$164,619,000), and the weighted average of 3,180,247,007 (2001: 2,194,357,310) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The diluted loss per share for the years ended 31st July, 2002 and 2001 has not been disclosed as there is no diluting events existed during these years.

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14. FIXED ASSETS

Group

	31st July, 2001 HK$'000	Additions HK$'000	Reclassified from properties under development HK$'000	Disposals HK$'000	31st July, 2002 HK$'000
Cost:					
Leasehold land and buildings	—	—	46,119	—	46,119
Leasehold improvements	31	—	—	—	31
Furniture, fixtures and equipment	13,054	854	—	(95)	13,813
Motor vehicles	1,644	—	—	—	1,644
Computers	1,439	90	—	(36)	1,493
	16,168	944	46,119	(131)	63,100
Accumulated depreciation:					
Leasehold land and buildings	—	1,281	—	—	1,281
Leasehold improvements	3	7	—	—	10
Furniture, fixtures and equipment	7,905	1,409	—	(51)	9,263
Motor vehicles	1,164	115	—	—	1,279
Computers	732	280	—	(25)	987
	9,804	3,092	—	(76)	12,820
Net book value	6,364				50,280

The Group's leasehold land and buildings as at 31st July, 2002 are situated in the PRC and are held under medium term leases.

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15. INVESTMENT PROPERTIES

	Group	
	2002	2001
	HK$'000	HK$'000
At beginning of year, at valuation	2,954,000	2,972,060
Additions	10,409	17,663
Transferred to completed properties for sale	—	(6,418)
Deficit on revaluation	(12,009)	(29,305)
At end of year, at valuation	2,952,400	2,954,000

At 31st July, 2002, the investment properties were revalued by Chesterton Petty Limited, independent professional valuers, at HK$2,952,400,000 (2001: HK$2,954,000,000) on an open market value basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 30 to the financial statements.

The investment properties are situated in the PRC and are held under medium term leases.

At 31st July, 2002, certain investment properties with carrying value amounting to approximately HK$2,872,520,000 (2001: HK$2,954,000,000) have been pledged to a bank to secure banking facilities granted to the Group as further set out in note 23 to the financial statements.

Notes to Financial Statements

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16. PROPERTIES UNDER DEVELOPMENT

	Group 2002 HK$'000	Group 2001 HK$'000
Properties under development held for investment potential, at valuation:		
At beginning of year	2,630,144	2,576,880
Interest capitalised, net	3,482	11,539
Other additions	45,842	87,752
Reclassified to fixed assets	(46,119)	—
Deficit on revaluation	(158,849)	(46,027)
Exchange realignments	882	—
At end of year	2,475,382	2,630,144
Properties under development held for purposes other than investment potential, at cost:		
At beginning of year	724,423	714,883
Interest capitalised, net	989	1,169
Other additions	8,847	8,371
Exchange realignments	339	—
At end of year	734,598	724,423
Total balance at end of year	3,209,980	3,354,567

At 31st July, 2002, properties under development held for investment potential were revalued by Chesterton Petty Limited, independent professional valuers, on an open market value basis.

Notes to Financial Statements

31st July, 2002

16. PROPERTIES UNDER DEVELOPMENT (continued)

An analysis by lease terms of the carrying value of the properties under development held for investment potential and held for purposes other than investment potential is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Properties under development held for investment potential, at valuation:		
Leases of between 10 to 50 years	1,966,382	2,099,144
Leases of over 50 years	509,000	531,000
	2,475,382	2,630,144
Properties under development held for purposes other than investment potential, at cost:		
Leases of between 10 to 50 years	120,263	115,161
Leases of over 50 years	614,335	609,262
	734,598	724,423
	3,209,980	3,354,567

All properties under development are situated in the PRC.

At 31st July, 2002, certain properties under development with carrying value amounting to approximately HK$485,645,000 (2001: HK$520,309,000) have been pledged to a bank to secure banking facilities granted to the Group as further set out in note 23 to the financial statements.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	144,272	144,272
Amounts due from subsidiaries	3,255,231	3,246,311
Amounts due to subsidiaries	(6,983)	(6,983)
	3,392,520	3,383,600

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

Notes to Financial Statements

31st July, 2002

17. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beautiwin Limited	Hong Kong	HK$2	—	100	Investment holding
Goldthorpe Limited	British Virgin Islands	US$1	—	100	Investment holding
Grace Snow Limited	Hong Kong	HK$2	—	100	Investment holding
Grand Wealth Limited	Hong Kong	HK$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Guangzhou Beautiwin Real Estate Development Co., Ltd.*	PRC	RMB100,000,000	—	100**	Property development and investment
Guangzhou Grand Wealth Properties Ltd.*	PRC	HK$138,000,000	—	100**	Property development and investment
Guangzhou Gongbird Property Development Ltd.*	PRC	US$22,160,000	—	100**	Property development and investment
Guangzhou Jieli Real Estate Development Co., Ltd.*	PRC	HK$168,000,000	—	100**	Property development and investment
Lai Fung Company Limited	Hong Kong	HK$20	100	—	Investment holding
Nicebird Company Limited	Hong Kong	HK$2	—	100	Investment holding
Shanghai Li Xing Real Estate Development Co., Ltd.*	PRC	US$36,000,000	—	90	Property development and investment
Sunlite Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Wealthy Grow Limited	Hong Kong	HK$2	—	100	Investment holding
Topsider International Limited	British Virgin Islands	US$1	100	—	Investment holding
Wide Angle Development Limited	Hong Kong	HK$2	—	100	Investment holding
Shanghai HKP Property Management Co., Ltd.*	PRC	US$150,000	—	95	Property management
Shanghai Wa Yee Real Estate Development Co., Ltd.*	PRC	US$10,000,000	70	25	Property development and investment
Good Strategy Limited	British Virgin Islands	US$1	—	100	Property investment

17. INTERESTS IN SUBSIDIARIES (continued)

* These subsidiaries have registered capital rather than issued share capital.

** These subsidiaries are co-operative joint ventures of which the joint venture partners' profit sharing ratios and the distribution of net assets upon the expiration of the joint venture periods are not in proportion to their equity ratio but are as defined in the joint venture contracts.

At 31st July, 2002, the shares in certain subsidiaries are pledged to secure bank loan facilities granted to the Group.

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

18. INTERESTS IN ASSOCIATES

	Group	
	2002	2001
	HK$'000	HK$'000
Share of net assets other than goodwill	—	42,273
Amounts due from associates	636,611	599,692
	636,611	641,965
Less: Provision for impairment	(36,703)	(17,787)
	599,908	624,178

Except for an amount of HK$433,208,000 (2001: HK$396,289,000) due from an associate which bears interest at Hong Kong dollar prime rate plus 2% per annum, the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

Included in the balance of "Share of net assets other than goodwill" is interest capitalised of approximately HK$72,095,000 (2001: HK$72,095,000) on borrowings for investments in associates engaged in property development and investment.

In the prior year, a write off of unamortised goodwill on acquisition of an associate and amortisation of goodwill of HK$36,993,000 and HK$1,156,000, respectively, was charged to the profit and loss account.

Notes to Financial Statements

31st July, 2002

18. INTERESTS IN ASSOCIATES (continued)

Details of the principal associates are as follows:

Name	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Besto Investments Limited*	Hong Kong	Ordinary	25	Investment holding
Hankey Development Ltd.*	Hong Kong	Ordinary	50	Investment holding
Shanghai Hankey Real Estate Development Co., Ltd.*	PRC	—**	48.3	Property development and investment
Shanghai Zhabei Plaza Real Estate Development Co., Ltd.*	PRC	—**	49.5	Property development and investment
Guangzhou Tianhe Baito Culture & Entertainment Square Co., Ltd.*	PRC	—**	25	Property development and investment
Guangzhou Besto Real Estate Development Co., Ltd.*	PRC	—**	25	Property development and investment
Guangzhou New Wave Culture Plaza*	PRC	—**	25	Property development and investment

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

** These associates have registered capital rather than issued share capital.

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

Notes to Financial Statements

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19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets	50,912	50,870
Amounts due to jointly-controlled entities	(737)	(743)
	50,175	50,127
Less: Provision for impairment	(45,057)	—
	5,118	50,127

Included in the balance of "Share of net assets" is interest capitalised of approximately HK$18,503,000 (2001: HK$18,503,000) on borrowings for investments in jointly-controlled entities engaged in property development.

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

Details of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Zhong Shan Li Shan Properties Development Limited	Corporate	PRC	50	50	50	Property development
Qingyuan Grace Snow Properties Ltd.	Corporate	PRC	100	56	72	Property development

All interests in jointly-controlled entities are indirectly held by the Company.

The impairment loss arose from the directors' assessment of the estimated realisable value of a joint venture property development project with reference to the prevailing market conditions.

20. COMPLETED PROPERTIES FOR SALE

Included in completed properties for sale is an amount of approximately HK$16,555,000 (2001: HK$58,130,000) which is carried at net realisable value.

Notes to Financial Statements

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21. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms of the Group range from 30 to 180 days. An aged analysis of debtors as at 31st July, 2002 is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Amounts not yet due	1,735	7,975
Overdue by 30 days	1,510	5,405
Overdue by 60 days	3,368	8,307
Overdue by 90 days	1,445	1,865
Overdue by more than 90 days	23,724	14,299
Trade receivables	31,782	37,851
Deposits and prepayments	23,590	16,963
Total	55,372	54,814

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	87,081	100,822	86	211
Time deposits	20,901	—	20,306	—
	107,982	100,822	20,392	211
Less: Pledged bank balances	(11,698)	(2,315)	—	—
Cash and cash equivalents	96,284	98,507	20,392	211

23. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2002	2001
	HK$'000	HK$'000
Bank loans repayable:		
Within one year or on demand	138,006	86,106
In the second year	47,138	106,254
In the third to fifth years, inclusive	493,688	785,381
Beyond five years	288,619	—
	967,451	977,741
Current portion included in current liabilities	(138,006)	(86,106)
Long term portion	829,445	891,635

The Group's bank loans are secured by:

(a) the pledge of certain of the Group's properties under development with carrying value amounting to approximately HK$485,645,000 (2001: HK$520,309,000) at the balance sheet date;

(b) mortgages over the Group's investment properties, with carrying value amounting to approximately HK$2,872,520,000 (2001: HK$2,954,000,000) at the balance sheet date;

(c) the pledge of the Group's bank balances amounting to HK$11,698,000 (2001: HK$2,315,000);

(d) mortgages over the entire registered capital of two of the Group's subsidiaries; and

(e) corporate guarantees provided by the Company.

24. CREDITORS AND ACCRUALS

The aged analysis of creditors as at 31st July, 2002 based on invoice date, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Within 1 month	6,569	1,706
Between 1 to 3 months	167	326
Over 3 months	56,720	37,789
Trade payables	63,456	39,821
Accruals and other creditors	163,969	239,320
Total	227,425	279,141

Notes to Financial Statements

31st July, 2002

25. LOANS FROM A SUBSTANTIAL SHAREHOLDER

During the year, the following loans were granted by a substantial shareholder to the Group and the Company:

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Interest-bearing at best lending rate quoted by a specified bank	787	40,787	787	40,787
Interest-bearing at London Inter-Bank Offering Rate	20,238	10,795	—	—
Interest-free	65,861	1,703	5,838	1,676
	86,886	53,285	6,625	42,463

All of the above loans are unsecured and not repayable within one year.

26. DEFERRED TAX

At the balance sheet date, the Group's unprovided deferred tax liabilities arising from the revaluation of investment properties and properties under development amounted to HK$231,978,000 (2001: HK$252,225,000) and HK$838,400,000 (2001: HK$922,093,000) in respect of LAT and income tax, respectively. In the opinion of the directors, the deferred tax liabilities are not expected to crystallise in the foreseeable future since the Group has no intention to dispose of these revalued properties.

Indemnities on certain tax liabilities arising from the disposal of the Group's properties under development, completed properties for sale and other properties were given by LSD. Details of the indemnities are included in note 11 to the financial statements.

27. SHARE CAPITAL

	Number of shares 2002 '000	Nominal value 2002 HK$'000	Number of shares 2001 '000	Nominal value 2001 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	7,000,000	700,000	7,000,000	700,000
Issued and fully paid:				
Ordinary shares of HK$ 0.10 each	3,838,534	383,853	3,070,827	307,083

During the year, a rights issue of one rights share for every four existing shares held by members on the register of members on 31st May, 2002 was made, at an issued price of HK$0.10 per rights share, resulting in the issue of 767,706,730 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$76,770,000, which was used as working capital of the Group.

Notes to Financial Statements

31st July, 2002

28. RESERVES

Group

	Share premium account HK$'000	Exchange fluctuation reserve HK$'000	Investment properties revaluation reserve HK$'000	Properties under development held for investment potential revaluation reserve HK$'000	Capital reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1st August, 2000	2,492,200	25,803	462,995	1,580,892	181,292	170,975	4,914,157
Share premium arising on conversion of convertible guaranteed bonds	736,631	—	—	—	—	—	736,631
Exchange realignments	—	95	—	—	—	—	95
Exchange reserve arising on conversion of convertible guaranteed bonds	—	(9,558)	—	—	—	—	(9,558)
Deficit on revaluation	—	—	(24,875)	(46,027)	—	—	(70,902)
Loss for the year	—	—	—	—	—	(164,619)	(164,619)
At 31st July, 2001 and 1st August, 2001	3,228,831	16,340	438,120	1,534,865	181,292	6,356	5,405,804
Share issue expenses	(3,142)	—	—	—	—	—	(3,142)
Exchange realignments	—	1,717	—	—	—	—	1,717
Deficit on revaluation	—	—	(11,909)	(158,849)	—	—	(170,758)
Loss for the year	—	—	—	—	—	(93,976)	(93,976)
At 3lst July, 2002	3,225,689	18,057	426,211	1,376,016	181,292	(87,620)	5,139,645
Reserves retained by:							
Company and subsidiaries	3,225,689	11,842	426,211	1,376,016	181,292	103,750	5,324,800
Associates	—	7,979	—	—	—	(153,870)	(145,891)
Jointly-controlled entities	—	(1,764)	—	—	—	(37,500)	(39,264)
At 3lst July, 2002	3,225,689	18,057	426,211	1,376,016	181,292	(87,620)	5,139,645
Company and subsidiaries	3,228,831	11,636	438,120	1,534,865	181,292	153,984	5,548,728
Associates	—	6,510	—	—	—	(110,128)	(103,618)
Jointly-controlled entities	—	(1,806)	—	—	—	(37,500)	(39,306)
At 31st July, 2001	3,228,831	16,340	438,120	1,534,865	181,292	6,356	5,405,804

Notes to Financial Statements

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28. RESERVES (continued)

Group (continued)

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. As explained in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 and Interpretation 13 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1st August, 2001, to remain eliminated against or credited to the capital reserve. The amount of goodwill and negative goodwill remaining in the capital reserve arising from the acquisition of subsidiaries, is HK$457,000 and HK$181,749,000, respectively, as at both 1st August, 2001 and 31st July, 2002. The amount of goodwill is stated at its cost. The adoption of SSAP 30 and Interpretation 13 has no material impact on the amounts previously reported in prior year financial statements and has not resulted in any prior year adjustment.

Company

	Share premium account HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st August, 2000	2,492,200	—	(67,697)	2,424,503
Share premium arising on conversion of convertible guaranteed bonds	736,631	—	—	736,631
Exchange reserve arising on conversion of convertible guaranteed bonds	—	(9,558)	—	(9,558)
Loss for the year	—	—	(121,016)	(121,016)
At 31st July, 2001 and 1st August, 2001	3,228,831	(9,558)	(188,713)	3,030,560
Share issue expenses	(3,142)	—	—	(3,142)
Loss for the year	—	—	(7,459)	(7,459)
At 31st July, 2002	3,225,689	(9,558)	(196,172)	3,019,959

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31st July, 2002

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 HK$'000	2001 HK$'000
Profit from operating activities	76,204	73,607
Interest income	(37,709)	(49,225)
Loss on disposal of fixed assets	9	508
Write back of provision for doubtful debts	—	(3,211)
Overprovision for completed properties for sale	—	(5,000)
Overprovision for properties under development held for purposes other than investment potential	—	(3,982)
Depreciation	3,092	1,897
Amortisation of goodwill arising on acquisition of an associate	—	1,156
Decrease in completed properties for sale	41,575	86,841
Decrease/(increase) in debtors, deposits and prepayments	(558)	15,703
Decrease in amounts due to jointly-controlled entities	(6)	—
Decrease in deposits received, short-term rental deposits received and creditors and accruals	(46,398)	(83,360)
Increase/(decrease) in long-term rental deposits received	3,432	(1,357)
Net cash inflow from operating activities	39,641	33,577

Notes to Financial Statements

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Issued capital and share premium account HK$'000	Convertible guaranteed bonds and convertible note HK$'000	Bank loans, secured HK$'000	Minority interests HK$'000	Loans from a substantial shareholder HK$'000
Balance at 3lst July, 2000	2,596,911	1,529,445	266,715	151,889	—
Net cash inflow/(outflow) from financing	—	(600,000)	711,026	15,354	51,582
Share of profit for the year	—	—	—	823	—
Conversion of convertible guaranteed bonds	939,003	(929,445)	—	—	—
Interest on loans from a substantial shareholder	—	—	—	—	1,703
Interest on current accounts with minority shareholders	—	—	—	(1,260)	—
Share of revaluation deficit of investment properties	—	—	—	(4,430)	—
Balance at 3lst July, 2001	3,535,914	—	977,741	162,376	53,285
Net cash inflow/(outflow) from financing	73,628	—	(10,731)	675	31,283
Share of profit for the year	—	—	—	2,153	—
Share of exchange reserve	—	—	—	(19)	—
Exchange realignments	—	—	441	—	—
Share of revaluation deficit of investment properties	—	—	—	(100)	—
Interest on loans from a substantial shareholder	—	—	—	—	2,318
Balance at 31st July, 2002	3,609,542	—	967,451	165,085	86,886

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two months to five years. The terms of the leases generally also require the tenants to pay security deposits.

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

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	59,202	13,865
In the second to fifth years, inclusive	119,387	33,534
After five years	83,147	54,843
	261,736	102,242

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of two years.

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

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	233	116
In the second to fifth years, inclusive	97	28
	330	144

Notes to Financial Statements

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31. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company 2002 HK$'000	Company 2001 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	1,166,000	1,166,000

As at 31st July, 2002, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$967,000,000 (2001: HK$978,000,000).

(b) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, the Company agreed to guarantee up to 95% of the liabilities of a subsidiary for the due performance of its undertaking to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.

(c) Under a mortgage loan facility provided by another bank to the end-buyers of Eastern Place Phase I and Phase II, the Company agreed to provide guarantees to the bank to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.

32. COMMITMENTS

At 31st July, 2002, the Group had capital commitments in respect of the following:

	Group 2002 HK$'000	Group 2001 HK$'000
Contracted, but not provided for:		
Land premium, resettlement and compensation and construction costs	560,937	786,620

Notes to Financial Statements

31st July, 2002

33. POST BALANCE SHEET EVENT

On 21st June, 2001, Sunlite Investment Limited ("Sunlite"), a wholly-owned subsidiary of the Company, entered into a conditional agreement with Tai Hong Company Limited ("Tai Hong"), the minority shareholder of certain subsidiaries of the Company, namely, Shanghai Li Xing Real Estate Development Co., Ltd. ("Li Xing"), Shanghai HKP Property Management Co., Ltd. and Shanghai Lai Fung Department Store Co., Ltd. (collectively the "Subsidiaries"), whereby Sunlite agreed to purchase from Tai Hong its 5% equity interest in each of the Subsidiaries together with a Shareholder's loan made to Li Xing of approximately RMB4,600,000 for a total consideration of US$1,700,000 (the "Consideration"). At the balance sheet date, Sunlite had paid a total of RMB11,000,000 (the "Deposit") as part of the Consideration to Tai Hong and such Deposit paid was included in the debtors, deposits and prepayments in the Group's consolidated balance sheet as at 31st July, 2002. During the process of transferring the legal title of the equity interest in Li Xing, it became known to Sunlite that a charging order was created by the Shenzhen Municipal Intermediate People's Court (the "Shenzhen Court") on any changes in registration of the equity interest in Li Xing. The equity interest in Li Xing was then frozen by the Shenzhen Court.

Sunlite then filed a statement of dissent in asserting its valid beneficial ownership of the equity interest in Li Xing. Subsequent to the balance sheet date on 14th August, 2002, the Shenzhen Court ruled in favour of Sunlite that upon the payment by Sunlite of the remaining Consideration of approximately RMB2,900,000, the charging order on the equity interest in Li Xing would be released. The remaining Consideration was paid by the Group on 20th September, 2002 and the transfer of the equity interest in Li Xing was completed on 28th September, 2002. Since then, the Group's equity interest in Li Xing increased from 90% to 95%.

34. COMPARATIVE AMOUNTS

During the year, the directors considered it a fairer presentation to include in the cost of sales, certain costs incurred directly for the purpose of earning rental income which were classified as administrative expenses in previous years. Consequently, approximately HK$16 million representing the aforesaid direct cost of rental income was reclassified from administrative expenses to cost of sales for the year ended 31st July, 2001.

In addition, the directors considered it a fairer presentation to restructure the items on the Company's and the Group's balance sheets where the "Minority Interests" and "Non-Current Liabilities", which were previously shown after the item "Capital and Reserves", are now moved to the upper part of the balance sheets to arrive at the net asset value of the Company and the Group. Comparative amounts in the Company and the Group balance sheets are restated to conform to this presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8th November, 2002.