Notes to Financial Statements

31 March 2002

1. CORPORATE REORGANISATION

Cosmopolitan International Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability on 26 March 1991. Pursuant to a scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance (the "Scheme") which became effective on 12 June 1991, the Company became the holding company of Cosmopolitan Properties and Securities Limited ("CPS"), a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). With effect from 12 June 1991, the Company was listed on the Stock Exchange in place of CPS.

2. CORPORATE INFORMATION AND UPDATE

The registered office of business of the Company is located at 5th Floor, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong.

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

- Securities trading
- Property investment

The Group had net current liabilities of HK$35,066,000 as at 31 March 2002 (2001: net current assets of HK$40,235,000). Subsequent to the balance sheet date, as more fully described in note 27, the Group obtained a new bank loan and completed a private placement, which generated net cash proceeds of approximately HK$60,000,000 and HK$5,090,000, respectively. The directors are of the opinion that, with the above measures taken to date, the Group will have sufficient cash resources to meet its future working capital and other financing requirements and, accordingly, have prepared the financial statements on a going concern basis.

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

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

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

Notes to Financial Statements *(continued)*

31 March 2002

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

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 adopting these SSAPs and Interpretations are summarised as follows:

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

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 25 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 12 and 23 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. 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.

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.

Notes to Financial Statements *(continued)*

31 March 2002

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

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

4. 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 equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of 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 of the Company controls, directly and indirectly, so as to obtain benefits from its activities.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries 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.

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 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, 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.

Notes to Financial Statements *(continued)*

31 March 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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.

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.

Impairment of assets

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

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

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

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

Notes to Financial Statements *(continued)*

31 March 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life of four years or over the lease period of the asset, whichever is shorter.

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

Investment properties

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

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

Operating leases

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

Short term investments

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

Notes to Financial Statements *(continued)*

31 March 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 equivalents represent assets similar in nature to cash, which are not restricted as to use.

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.

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 securities trading, on the trade date basis, with gains and losses on investments being calculated on the average cost basis;

(b) rental income, on a time proportion basis over the lease terms;

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

(d) dividend income, when the right to receive payment has been established; and

(e) from the disposal of investment properties, when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer.

Dividends

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

Interim dividends are simultaneously proposed and declared, because the bye-laws of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Notes to Financial Statements *(continued)*

31 March 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends *(continued)*

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 12 and 23 to the financial statements.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries 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.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund Exempted ORSO retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the participating 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. When an employee leaves the Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 3 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 services they provide. Each of the Group's business segments represents a strategic business unit that offers 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 securities trading segment invests in equity securities listed on global stock markets; and

Notes to Financial Statements *(continued)*

31 March 2002

5. SEGMENT INFORMATION *(continued)*

(b) the property investment segment invests in residential units and office space for their rental income potential.

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

(a) Business segments

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

Group	**Securities trading**		**Property investment**		**Eliminations**		**Consolidated**	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**(39,253)**	(52,410)	**7,105**	9,728	**–**	–	**(32,148)**	(42,682)
Dividend income from listed investments	**670**	1,107	**–**	–	**–**	–	**670**	1,107
Net proceeds from disposal of an investment property	**–**	–	**–**	1,198	**–**	–	**–**	1,198
Unrealised holding gains/ (losses) on listed investments	**19**	(129,230)	**–**	–	**–**	–	**19**	(129,230)
Allocated expenses	**(392)**	(1,655)	**(2,039)**	(3,429)	**–**	–	**(2,431)**	(5,084)
Segment results	**(38,956)**	(182,188)	**5,066**	7,497	**–**	–	**(33,890)**	(174,691)
Interest income							**659**	2,631
Other income							**157**	519
Unallocated expenses							**(8,305)**	(17,925)
Loss from operating activities							**(41,379)**	(189,466)
Finance costs							**(4,300)**	(8,964)
Loss before tax							**(45,679)**	(198,430)
Tax							**578**	(9)
Net loss from ordinary activities attributable to shareholders							**(45,101)**	(198,439)

Notes to Financial Statements (continued)

31 March 2002

5. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group	Securities trading		Property investment		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**2,059**	130,844	**200,555**	225,357	**–**	–	**202,614**	356,201
Unallocated assets							**21,323**	8,158
Total assets							**223,937**	364,359
Segment liabilities	**165,191**	237,708	**22,245**	22,653	**(35,328)**	(37,134)	**152,108**	223,227
Unallocated liabilities							**719**	765
Total liabilities							**152,827**	223,992
Other segment information:								
Depreciation	**–**	–	**423**	605	**–**	–	**423**	605
Deficit on revaluation	**–**	–	**24,254**	16,346	**–**	–	**24,254**	16,346

(b) Geographical segments

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

Group	USA		Hong Kong		United Kingdom		Corporate and Other		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**(34,844)**	(49,950)	**2,696**	7,268	**–**	–	**–**	–	**(32,148)**	(42,682)
Segment results	**(31,211)**	(164,617)	**(13,497)**	(33,491)	**(393)**	(331)	**–**	–	**(45,101)**	(198,439)
Other segment information:										
Segment assets	**19,175**	81,912	**165,296**	256,897	**23,821**	24,753	**15,645**	797	**223,937**	364,359

Notes to Financial Statements *(continued)*

31 March 2002

6. TURNOVER AND REVENUE

Turnover represents the net results from securities trading and gross rental income received and receivable from investment properties during the year/period.

An analysis of the Group's turnover and other revenue is as follows:

	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Turnover		
Results from securities trading	**(39,253)**	(52,410)
Gross rental income from investment properties	**7,105**	9,728
	(32,148)	(42,682)
Other revenue		
Interest income	**659**	2,631
Dividend income from listed investments	**670**	1,107
Net proceeds from disposal of an investment property	**–**	1,198
Other income	**157**	519
	1,486	5,455

Notes to Financial Statements (continued)

31 March 2002

7. LOSS FROM OPERATING ACTIVITIES

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

	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Depreciation	**423**	605
Minimum lease payments under operating leases of land and buildings	**931**	2,305
Auditors' remuneration	**877**	998
Staff costs (excluding directors' remuneration – note 9):		
Salaries and other benefits	**2,364**	6,871
Pension scheme contributions	**87**	129
Less: Forfeited contributions	**(84)**	(74)
Net pension contributions *	**3**	55
Total staff costs	**2,367**	6,926
Exchange (gains)/losses, net	**(16)**	503
Gain on disposal of an investment property	**–**	(1,103)
Net rental income	**(6,264)**	(8,177)

* *At 31 March 2002, the Group had no forfeited provident fund contributions available to reduce its provident fund contributions in future years (period ended 31 March 2001: nil).*

8. FINANCE COSTS

	Group	
	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**4,300**	8,964

Notes to Financial Statements (continued)

31 March 2002

9. DIRECTORS' REMUNERATION

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

	Group	
	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Independent non-executive directors – Fees	**100**	125
Executive directors:		
Fees	**25**	31
Salaries and other benefits	**429**	507
Pension scheme contributions	**20**	24
	574	687

The remuneration of each of the directors was below HK$1,000,000 for the year/period ended 31 March 2002 and 2001.

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (period ended 31 March 2001: nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (period ended 31 March 2001: one) director, details of whose remuneration are set out in note 9 above. Further details of the remuneration of the remaining four (period ended 31 March 2001: four) non-director, highest paid employees are as follows:

	Group	
	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,421**	2,494
Pension scheme contributions	**40**	51
	1,461	2,545

The remuneration of each of these non-director, highest paid employees was below HK$1,000,000 for the year/period ended 31 March 2002 and 2001.

Notes to Financial Statements *(continued)*

31 March 2002

11. TAX

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the year (period ended 31 March 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.

	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Group:		
Elsewhere	**–**	(9)
Overprovision in the prior period	**578**	–
Tax credit/(charge) for the year/period	**578**	(9)

The Group's net deferred tax assets not recognised in the financial statements amounted to approximately HK$8,046,000 (2001: HK$4,303,000) at the balance sheet date and mainly represented unutilised tax losses carried forward.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company is HK$68,950,000 (period ended 31 March 2001: HK$129,875,000, as restated).

The prior year adjustment reversed dividend income from a subsidiary of HK$34,500,000, which was declared and approved by the subsidiary after the 31 December 1999 balance sheet date, but which was recognised by the Company as revenue in its financial statements for the year ended 31 December 1999. The prior year adjustment resulted in a decrease of the Company's net loss from HK$164,375,000 to HK$129,875,000 for the 15 months ended 31 March 2001. The change in accounting policies has arisen from the adoption of revisions to SSAP 9 & 18, as further detailed in notes 3, 4 and 23 to the financial statements.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$45,101,000 (period ended 31 March 2001: HK$198,439,000) and 108,659,267 (period ended 31 March 2001: weighted average of 108,702,434) ordinary shares in issue during the year.

Notes to Financial Statements *(continued)*

31 March 2002

13. LOSS PER SHARE *(continued)*

Diluted loss per share amounts for the year ended 31 March 2002 and the 15 months ended 31 March 2001 have not been calculated because no diluting events existed during the year/period.

14. FIXED ASSETS

Group

	Investment properties *HK$'000*	**Other assets** *HK$'000*	**Total** *HK$'000*
Cost or valuation:			
At beginning of year			
– At cost	–	5,314	5,314
– At valuation	219,986	–	219,986
Disposals	–	(1,169)	(1,169)
Deficit on revaluation	(24,254)	–	(24,254)
Exchange realignments	76	8	84
At 31 March 2002	195,808	4,153	199,961
Accumulated depreciation:			
At beginning of year	–	3,853	3,853
Provided during the year	–	423	423
Disposals	–	(1,168)	(1,168)
Exchange realignments	–	5	5
At 31 March 2002	–	3,113	3,113
Net book value:			
At 31 March 2002	195,808	1,040	196,848
At 31 March 2001	219,986	1,461	221,447

The investment properties are all held under long term leases as follows:

	2002 ***HK$'000***	2001 *HK$'000*
Situated in:		
Hong Kong	**176,400**	200,100
Elsewhere	**19,408**	19,886
	195,808	219,986

Notes to Financial Statements *(continued)*

31 March 2002

14. FIXED ASSETS *(continued)*

The investment properties, which are situated in Hong Kong and the United Kingdom, were revalued on 31 March 2002 on an open market value, existing use basis by DTZ Debenham Tie Leung Limited, registered professional surveyors, and A Fieldhouse, BSc MRICS, chartered surveyors, respectively. A revaluation deficit of HK$24,254,000 (2001: HK$16,346,000) resulting from the above valuation has been charged to the investment property revaluation reserve.

At 31 March 2002, certain of the Group's investment properties situated in Hong Kong with an aggregate carrying value of HK$54,700,000 (2001: HK$66,900,000) were pledged to secure general banking facilities granted to the Group (note 20).

Subsequent to the balance sheet date, in April 2002, the Group obtained a new bank loan of HK$60,000,000 which is secured by certain of the Group's investment properties situated in Hong Kong with an aggregate carrying value of HK$157,000,000 at the balance sheet date (note 27).

Further particulars of the Group's investment properties are included on pages 43 to 44 of the annual report.

The investment properties are leased to third parties under operating leases, further details of which are included in note 25 to the financial statements.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**298,005**	298,005
Due from a subsidiary	**10,724**	12,185
Due to a subsidiary	**(6,971)**	(6,971)
	301,758	303,219
Less: Provision for impairment	**(230,485)**	(163,000)
	71,273	140,219

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

Notes to Financial Statements *(continued)*

31 March 2002

15. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Cosmopolitan Properties and Securities Limited	Hong Kong	HK$1,000	100	–	Securities trading and property investment
Supernational Limited	Hong Kong	HK$6,815,230	–	100	Securities trading
Village Properties Limited	Hong Kong	HK$20	–	100	Property investment
Furada Limited *	Channel Islands	GBP12	–	100	Property investment

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

16. SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	**100**	41,218
Elsewhere	**1,926**	81,600
	2,026	122,818

17. ACCOUNTS RECEIVABLE

An aged analysis of the Group's and the Company's accounts receivable is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 – 60 days	**254**	8,301	**–**	–
61 – 90 days	**6**	50	**–**	–
Over 90 days	**33**	86	**10**	10
	293	8,437	**10**	10

Notes to Financial Statements *(continued)*

31 March 2002

17. ACCOUNTS RECEIVABLE *(continued)*

Sales proceeds from securities trading are receivable in accordance with the settlement terms of the respective stock market practices, and rental income from investment properties is normally receivable in advance each month during the term of tenancy. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

18. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**2,227**	2,137	**178**	340
Time deposits	**20,517**	6,809	**–**	–
	22,744	8,946	**178**	340

19. BANK AND OTHER BORROWINGS

		Group	
	Notes	**2002**	2001
		HK$'000	*HK$'000*
Bank overdrafts – secured	20	**29,460**	49,792
Current portion of bank loans – secured	20	**349**	49,608
Loan from a director	21, 27	**30,000**	–
		59,809	99,400

Notes to Financial Statements *(continued)*

31 March 2002

20. INTEREST-BEARING BANK BORROWINGS AND OVERDRAFTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank overdrafts – secured	**29,460**	49,792
Bank loans – secured	**4,258**	53,895
	33,718	103,687
Bank overdrafts repayable within one year or on demand	**29,460**	49,792
Bank loans repayable:		
Within one year	**349**	49,608
In the second year	**371**	307
In the third to fifth years, inclusive	**1,259**	1,106
Beyond five years	**2,279**	2,874
	4,258	53,895
	33,718	103,687
Portion classified as current liabilities – note 19	**(29,809)**	(99,400)
Long term portion	**3,909**	4,287

Certain of the Group's bank loans and overdrafts are secured by:

(i) legal charges over the Group's investment properties situated in Hong Kong which had an aggregate carrying value at the balance sheet date of HK$54,700,000 (2001: HK$66,900,000); and

(ii) a corporate guarantee executed by the Company (note 26).

21. OTHER NON-CURRENT LIABILITIES

		Group	
	Note	**2002**	2001
		HK$'000	*HK$'000*
Loans from a director	27	**85,572**	115,572
Government lease regrant premium		**37**	39
Tenant deposits due after one year		**1,154**	1,417
		86,763	117,028

Notes to Financial Statements *(continued)*

31 March 2002

22. SHARE CAPITAL

	2002	2001
	HK$'000	*HK$'000*
Authorised:		
200,000,000 ordinary shares of HK$0.10 each	**20,000**	20,000
Issued and fully paid:		
108,659,267 ordinary shares of HK$0.10 each	**10,866**	10,866

Changes to the Company's share capital subsequent to the balance sheet date are disclosed in note 27(b) to the financial statements.

23. RESERVES

	Capital redemption reserve	Capital reserve	Exchange fluctuation reserve	Investment property revaluation reserve	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group							
At 1 January 2000	193	28,309	(1,734)	182,264	26,801	112,425	348,258
Deficit on revaluation	–	–	–	(16,346)	–	–	(16,346)
Exchange realignments	–	–	(2,857)	204	–	–	(2,653)
Net loss for the period	–	–	–	–	–	(198,439)	(198,439)
Repurchase of shares	16	–	–	–	–	(430)	(414)
Released on disposal	–	–	–	(905)	–	–	(905)
At 31 March 2001 and beginning of year	209	28,309	(4,591)	165,217	26,801	(86,444)	129,501
Deficit on revaluation	–	–	–	(24,254)	–	–	(24,254)
Exchange realignments	–	–	98	–	–	–	98
Net loss for the year	–	–	–	–	–	(45,101)	(45,101)
At 31 March 2002	209	28,309	(4,493)	140,963	26,801	(131,545)	60,244

The amount of goodwill remaining eliminated against the consolidated retained profits arising from the acquisition of a subsidiary prior to 1 April 2001 amounted to HK$533,187 as at both 1 April 2001 and 31 March 2002, as explained in note 4 to the financial statements.

Notes to Financial Statements *(continued)*

31 March 2002

23. RESERVES *(continued)*

	Capital redemption reserve *HK$'000*	Contributed surplus *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Total *HK$'000*
Company				
At 1 January 2000				
As previously reported	193	290,621	3,169	293,983
Prior year adjustment:				
SSAP 18 (Revised) – effect of dividend from a subsidiary no longer recognised as income for the year (notes 4 and 12)	–	–	(34,500)	(34,500)
As restated	193	290,621	(31,331)	259,483
Net loss for the period (as restated)	–	–	(129,875)	(129,875)
Repurchase of shares	16	–	(430)	(414)
At 31 March 2001 and beginning of year	209	290,621	(161,636)	129,194
Net loss for the year	–	–	(68,950)	(68,950)
	209	290,621	(230,586)	60,244

The contributed surplus of the Group represents the excess of the nominal value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in 1991, net of subsequent distributions therefor.

The Company's contributed surplus represents the difference between the fair value of the subsidiaries acquired pursuant to the Group reorganisation in 1991 and the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Law of the Cayman Islands, the contributed surplus is distributable under certain specific circumstances.

Notes to Financial Statements *(continued)*

31 March 2002

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Loss from operating activities	**(41,379)**	(189,466)
Gain on disposal of investment properties	**–**	(1,103)
Depreciation	**423**	605
Loss on disposal of fixed assets	**1**	–
Interest income	**(659)**	(2,631)
Decrease in accounts receivable	**8,144**	52,735
Decrease in other receivables and deposits	**685**	41,759
Decrease/(increase) in short term investments	**120,792**	(43,194)
Decrease in accruals and other liabilities	**(141)**	(57,812)
Increase/(decrease) in other non-current liabilities	**(265)**	382
Net cash inflow/(outflow) from operating activities	**87,601**	(198,725)

(b) Analysis of changes in financing during the year/period

	Bank loans	**Loans from a director**
	HK$'000	*HK$'000*
At 1 January 2000	**4,864**	–
Net cash inflow/(outflow) from financing	**(297)**	115,572
At 31 March 2001 and beginning of year	**4,567**	115,572
Net cash outflow from financing	**(309)**	–
At 31 March 2002	**4,258**	115,572

Notes to Financial Statements *(continued)*

31 March 2002

25. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, 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	**6,814**	5,190
In the second to fifth years, inclusive	**5,105**	7,495
	11,919	12,685

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements with the terms ranging from two to four years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
		(Restated)
Within one year	**739**	1,335
In the second to fifth years, inclusive	**1,602**	2,341
	2,341	3,676

At the balance sheet date, the Company had no material commitments.

Notes to Financial Statements *(continued)*

31 March 2002

25. OPERATING LEASE ARRANGEMENTS *(continued)*

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

26. CONTINGENT LIABILITIES

	Group		**Company**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks for facilities granted to subsidiaries	**–**	–	**61,963**	91,963

As at 31 March 2002, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$33.7 million (2001: HK$54.4 million).

27. POST BALANCE SHEET EVENTS

(a) On 4 April 2002, the Group obtained a new bank loan of HK$60,000,000 which is repayable by 96 monthly instalments. The current portion thereof which is repayable in the year ending 31 March 2003 amounts to HK$2,200,000. This borrowing is secured by certain investment properties of the Group with a carrying value of approximately HK$157,000,000 as at the balance sheet date (note 14). The bank loan was used to repay part of the director's loans of HK$30,000,000 (note 19) and all of the Group's bank overdrafts of HK$29,460,000 (note 20) outstanding as at 31 March 2002;

(b) On 19 April 2002, the Company entered into a placing agreement with a placing agent to issue and allot 9,000,000 new ordinary shares of the Company at HK$0.58 each payable in cash to an independent party. The placing shares represented approximately 8.28% of the Company's then existing issued share capital and approximately 7.65% of the issued share capital of the Company as enlarged by the placing. The placement was completed on 7 May 2002. The net cash proceeds of approximately HK$5,090,000, after deducting the related expenses, were used to provide additional general working capital of the Group; and

(c) Mr. Eric Edward Hotung, a director of the Company, advanced HK$115,572,000 (the "Loans") to the Group during the period ended 31 March 2001. The Loans are unsecured and interest-free. Subsequent to the balance sheet date, as set out in (a) above, HK$30,000,000 of the Loans was repaid. Mr. Eric Edward Hotung has made an undertaking that he will not demand repayment of the remaining balance of HK$85,572,000 before 25 May 2003 and, accordingly, this remaining balance has been classified as a non-current liability at the balance sheet date.

Notes to Financial Statements *(continued)*

31 March 2002

27. POST BALANCE SHEET EVENTS *(continued)*

Set out below is a summary condensed pro forma consolidated balance sheet of the Group as at 31 March 2002, prepared as if the above refinancing arrangements had been completed as at 31 March 2002:

	Audited consolidated net assets at 31 March 2002	Pro forma adjustments			Pro forma adjusted consolidated net assets at 31 March 2002
		New bank loan	Repayment of bank and other borrowings	Private placement	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	196,848	–	–	–	196,848
Current assets	27,089	60,000	(59,460)	5,090	32,719
Current liabilities	(62,155)	(2,400)	59,460	–	(5,095)
Net current assets/ (liabilities)	(35,066)	57,600	–	5,090	27,624
Non-current liabilities	(90,672)	(57,600)	–	–	(148,272)
	71,110	–	–	5,090	76,200
Issued capital	10,866	–	–	900	11,766
Reserves	60,244	–	–	4,190	64,434
	71,110	–	–	5,090	76,200

Notes to Financial Statements *(continued)*

31 March 2002

28. RELATED PARTY TRANSACTIONS

During the year/period, in addition to the transactions disclosed in notes 19, 21 and 27 to the financial statements, the Group had the following transactions with Mr. Eric Edward Hotung and companies of which Mr. Eric Edward Hotung is also a director:

	Notes	**Year ended 31 March 2002** *HK$'000*	15 months ended 31 March 2001 *HK$'000*
Rental income from a director	(a)	**347**	404
Management fee expense to a related company	(b)	**120**	150

Notes:

(a) During the year/period, the Group let properties to Mr. Eric Edward Hotung, a director and substantial shareholder of the Company, for the purpose of storing his own personal effects. The rental was calculated by reference to the prevailing open market rentals.

(b) The management fee expense was paid to the related company for providing management services for the Group's investment properties. The management fee was charged at a monthly fixed amount as mutually agreed between the parties, with reference to the time and costs incurred by the related company.

29. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 July 2002.