

NOTES TO THE FINANCIAL STATEMENTS

For the year ended July 31, 2000

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company acts as a property and investment holding company and provides corporate management services to its subsidiaries. Its subsidiaries are principally engaged in property investment and development, provision of agency services and property management and maintenance services.

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

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants:

| | |
|-------------------|--|
| SSAP 1 (Revised) | Presentation of financial statements |
| SSAP 2 (Revised) | Net profit or loss for the period, fundamental errors and changes in accounting policies |
| SSAP 10 (Revised) | Accounting for investments in associates |
| SSAP 24 | Accounting for investments in securities |

SSAP 1 (Revised) and SSAP 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current year’s financial statements has been modified in order to conform with the requirements of those SSAPs. Comparative amounts have been restated in order to achieve a consistent presentation.

In particular:

- additional analyses of income and expenditure have been presented;
- expenses that were separately identified on the face of the income statement as ‘exceptional items’ have been reclassified within an appropriate expense classification; and
- amounts owing to and by subsidiaries, associates and investee companies which had previously been presented together with the Group’s investments in such enterprises have been reclassified as current and non-current assets and liabilities according to the nature of the transactions giving rise to the balances.

In addition, the description of various components in the financial statements and the terminology used have been updated to reflect the terminology of those SSAPs.

SSAP 10 (Revised) has not resulted in any significant changes to the accounting treatment adopted for investments in associates and, accordingly, no prior period adjustment is required. Disclosures presented have been modified to meet the requirements of the revised SSAP.

SSAP 24 has introduced a new framework for the classification of investments in securities. In adopting SSAP 24, the Group selected the alternative treatment for securities other than held-to-maturity securities.

Under SSAP 24, investments in securities are now classified as held-to-maturity (carried at amortised cost less provision for irrecoverable amounts), trading securities (carried at fair value, with valuation movements dealt with in the income statement) and other securities (carried at fair value, with valuation movements dealt with in equity). In prior years, investments of the Group and the Company were classified either as long-term (carried at cost less provision for impairment in value) or short-term (carried at the lower of cost and market value). The accounting treatment specified by SSAP 24 has been applied retrospectively resulting in the creation of a deficit balance of HK\$6,372,126 in investment revaluation reserve of the Group at August 1, 1999 and an increase in the Group's net loss for the year of HK\$674,830 (1999: decrease in net loss of HK\$764,809). Similarly, the retrospective application of SSAP 24 results in an increase in deficit of HK\$126,270 and the creation of a deficit balance of HK\$4,139,561 in investment revaluation reserve of the Company at August 1, 1999 and an increase in the Company's net loss for the year of HK\$15,802 (1999: decrease in net loss of HK\$29,280). Comparative figures have been restated to reflect this change in accounting policy.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (except for those detailed in note 16) made up to July 31 each year.

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

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

Goodwill

Goodwill or capital reserve represents respectively the excess or shortfall of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary. Goodwill or capital reserve is written off or credited directly to reserves, respectively, in the year of acquisition.

Any premium or discount arising on the acquisition of interests in associates, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

When the directors considered goodwill no longer reflect the intrinsic value of a subsidiary or an associate represented by it, the attributable amount of goodwill previously debited to the reserves will be reversed and charged to the income statement.

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

Investment properties

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

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

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment and amortisation are stated at cost or valuation less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Certain of the Group's and the Company's leasehold land and buildings were revalued during 1993 to 1995. Advantage has been taken of the transitional relief provided by paragraph 72 of SSAP 17 "Property, plant and equipment" from the requirement to make regular revaluations of leasehold land and buildings of the Group and the Company which had been carried at revalued amounts prior to August 1, 1995 and accordingly no further revaluation of land and buildings is carried out. In previous years, the surplus arising on revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset.

Depreciation and amortisation are provided to write off the cost or valuation of property, plant and equipment, over their estimated useful lives, using the straight-line method, at the following rates per annum:

| | |
|-----------------------------------|--|
| Leasehold land | Over the term of the relevant lease |
| Buildings | Over the shorter of the term of the lease or the estimated useful life of 25 to 50 years |
| Plant and machinery | 10% – 20% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 20% |

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

Assets held under hire purchase contracts

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

All other leases are classified as operating leases and the rental payable is charged to the income statement on a straight-line basis over the terms of the relevant lease.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable during the year.

Investments in subsidiaries not consolidated are stated at cost plus the results of the subsidiaries attributable to the Group from the date of acquisition up to the date of de-consolidation, less provision for impairment in value, if necessary.

Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of net assets of the associates.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any impairment. Results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in securities

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

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in profit or loss for the period.

Properties under development for sale

Properties under development for sale are stated at the lower of cost and net realisable value. Cost includes professional fees and other direct costs attributable to such properties until they reach a marketable condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes professional fees and other direct costs attributable to such properties until they reach a marketable condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Convertible notes

Convertible notes are regarded as liabilities until conversion occurs. Finance costs are allocated to periods over the term of the notes at a constant rate on the carrying amount. The costs incurred in connection with the issue of the notes are charged to the income statement.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sales of investments in securities are recognised when the related bought and sold notes are executed.

Commissions and service charges are recognised when services are provided.

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received in advance under current liabilities.

Rental income from properties under operating leases is recognised on a straight-line basis over the term of the relevant lease.

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

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Taxation

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

Foreign currencies

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

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollar and which operate in the People's Republic of China, other than Hong Kong, (the "PRC") and overseas are translated at the approximate rates ruling on the balance sheet date. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the subsidiaries are disposed of.

Retirement benefit scheme contributions

The retirement benefit scheme contributions charged in the income statement represent the amount of contributions payable in respect of the current year to the Group's defined contribution scheme.

Cash equivalents

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.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods and trading securities sold, services rendered to outside customers and interest income during the year, and is summarised as follows:

| | 2000 HK\$ | 1999 <i>HK\$</i> |
|---|---------------------------------|---------------------------|
| Continuing operations: | | |
| Property maintenance, management and agency services | 28,427,050 | 28,877,504 |
| Property rental | 14,495,279 | 15,724,171 |
| Interest income | 278,503 | 12,595,521 |
| Sale of trading securities | <u>3,335,636</u> | <u>7,223,553</u> |
| | 46,536,468 | 64,420,749 |
| Discontinued operations: | | |
| Manufacture and sale of biscuits | <u>5,898,655</u> | <u>66,005,094</u> |
| | <u><u>52,435,123</u></u> | <u><u>130,425,843</u></u> |

5. LOSS FROM OPERATIONS

| | 2000 HK\$ | 1999 HK\$ |
|---|--------------|--------------|
| Loss from operations has been arrived at after charging (crediting): | | |
| Directors' remuneration (<i>note 8</i>) | 1,132,448 | 1,580,720 |
| Other staff costs | 26,663,671 | 34,149,165 |
| Severance payments | 1,049,847 | — |
| Total staff costs | 28,845,966 | 35,729,885 |
| Auditors' remuneration | 404,874 | 470,175 |
| Depreciation and amortisation on: | | |
| Owned assets | 1,284,403 | 6,366,686 |
| Assets held under hire purchase contracts | 38,053 | 105,410 |
| Dividend income from investments in securities | (528,091) | (207,585) |
| Impairment loss of other securities | — | 269,726 |
| Loss on disposal of other securities | 761,224 | 681,122 |
| Loss on disposal of property, plant and equipment | 2,237 | 341,615 |
| Operating lease charges: | | |
| Plant and machinery | — | 1,050,980 |
| Premises | — | 963,238 |
| Provision for bad and doubtful debts | — | 1,874,414 |
| Provision for properties held for sale | 2,353,770 | — |
| Unrealised holding loss of trading securities | 292,942 | 919,299 |

6. FINANCE COSTS

| | 2000 HK\$ | 1999 HK\$ |
|---|--------------|--------------|
| Interest on: | | |
| Borrowings wholly repayable within five years: | | |
| Bank borrowings | 5,797,411 | 4,757,696 |
| Convertible notes | 454,421 | 1,610,000 |
| Other borrowings | 187,641 | 250,132 |
| Bank borrowings not wholly repayable within five years | 2,859,227 | 3,053,729 |
| Obligations under hire purchase contracts | 9,120 | 27,580 |
| | 9,307,820 | 9,699,137 |

7. (LOSS) GAIN ON DISPOSAL OF SUBSIDIARIES WHICH HAD BEEN ENGAGED IN DISCONTINUED OPERATIONS

During the year ended July 31, 2000, the Group disposed of its entire interest in Guangzhou Jessica Food Products Company Limited (“Guangzhou Jessica”) to the minority shareholder. Guangzhou Jessica was engaged in the manufacture and sale of biscuits in the PRC. Accordingly, the Group’s business of manufacture and sale of biscuits was discontinued and the effective date of discontinuance for accounting purposes was September 16, 1999.

A loss of approximately HK\$39,000 arose on the disposal of Guangzhou Jessica, being the proceeds of the disposal less the carrying amount of Guangzhou Jessica’s net assets and currency translation reserve. No tax charge or credit arose from the transaction.

The results of the business of manufacture and sale of biscuits for the period from August 1, 1999 to September 16, 1999, which have been included in the consolidated income statement, together with the corresponding comparative figures for the year ended July 31, 1999, were as follows:

| | 8.1.1999 to 9.16.1999 HK\$ | 8.1.1998 to 7.31.1999 HK\$ |
|----------------------|-------------------------------------|-------------------------------------|
| Turnover | 5,898,655 | 66,005,094 |
| Operating costs | <u>(6,051,525)</u> | <u>(77,813,655)</u> |
| Loss from operations | <u><u>(152,870)</u></u> | <u><u>(11,808,561)</u></u> |

On July 31, 1999, the Group disposed of its entire interest in a subsidiary, F.I.A. Co., Ltd. (“F.I.A.”) upon disposal of its immediate holding company to an independent third party for an aggregate consideration of HK\$8, resulting in a gain of HK\$14,612. F.I.A. was engaged in the manufacture and sale of ice-cream before it ceased operations in May 1997. The companies disposed of were inactive during the year ended July 31, 1999 and did not contribute significantly to the Group’s operating results. No tax charge or credit arose from the transaction.

8. DIRECTORS' EMOLUMENTS

| | 2000 HK\$ | 1999 HK\$ |
|--|-------------------------|-------------------------|
| Fees: | | |
| Executive directors | 23,123 | 9,000 |
| Non-executive and independent non-executive directors | 40,000 | 8,828 |
| | <u>63,123</u> | <u>17,828</u> |
| Other emoluments (executive directors): | | |
| Salaries and other benefits | 892,000 | 1,380,259 |
| Retirement benefit scheme contributions | 39,400 | 58,033 |
| Other emoluments (non-executive directors): | | |
| Salaries and other benefits | 136,125 | 123,400 |
| Retirement benefit scheme contributions | 1,800 | 1,200 |
| | <u>1,069,325</u> | <u>1,562,892</u> |
| | <u><u>1,132,448</u></u> | <u><u>1,580,720</u></u> |

The emoluments of each of the directors were below HK\$1,000,000 for both years.

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (1999: two) was a director of the Company whose emoluments are included in note 8 above. The emoluments of the remaining four (1999: three) employees are as follows:

| | 2000 HK\$ | 1999 HK\$ |
|---|------------------|------------------|
| Salaries and other benefits | 1,239,526 | 1,209,394 |
| Retirement benefit scheme contributions | 235,862 | 43,200 |
| Severance payments | 566,978 | — |
| | <u>2,042,366</u> | <u>1,252,594</u> |

The emoluments of each of these employees were below HK\$1,000,000 for both years.

10. TAXATION

| | 2000 <i>HK\$</i> | 1999 <i>HK\$</i> |
|--|----------------------------|-----------------------|
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| Current year | 84,000 | 14,001 |
| Under(over)provision in prior years | 53,426 | (52,033) |
| | 137,426 | (38,032) |
| Share of taxation on results of associates | 318,693 | 311,361 |
| | <u>456,119</u> | <u>273,329</u> |

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Details of the deferred taxation asset not recognised are set out in note 35.

11. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of HK\$37,837,581 (1999: HK\$23,474,145 (as restated)), a net loss of HK\$42,828,002 (1999: HK\$21,173,054 (as restated)) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on net loss for the year of HK\$37,837,581 (1999: HK\$23,474,145 (as restated)) and on the weighted average number of 401,040,614 (1999: 388,479,082) shares in issue during the year.

No additional disclosure of diluted loss per share for both years is shown as the effect of the potential ordinary shares in issue is anti-dilutive for both years.

13. INVESTMENT PROPERTIES

| | THE GROUP | | THE COMPANY | |
|--|--------------------------|--------------------|--------------------------|-------------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Balance brought forward | 126,100,000 | 81,390,000 | 35,380,000 | 39,460,000 |
| Upon acquisition of a subsidiary | – | 68,000,000 | – | – |
| Deficit arising on revaluation | (26,360,000) | (23,290,000) | (2,830,000) | (4,080,000) |
| Balance carried forward | <u>99,740,000</u> | <u>126,100,000</u> | <u>32,550,000</u> | <u>35,380,000</u> |
| Comprising: | | | | |
| Investment properties in Hong Kong held under: | | | | |
| Long leases | 2,000,000 | 34,000,000 | – | 32,000,000 |
| Medium-term leases | <u>97,740,000</u> | <u>92,100,000</u> | <u>32,550,000</u> | <u>3,380,000</u> |
| | <u>99,740,000</u> | <u>126,100,000</u> | <u>32,550,000</u> | <u>35,380,000</u> |

The investment properties of the Group and the Company are held for rental purposes under operating leases and were revalued at July 31, 2000 on an open market value basis by Chung Sen Surveyors Limited, an independent firm of professional valuers.

The deficit arising on revaluation of the Group's investment properties amounted to HK\$26,360,000 (1999: HK\$23,290,000), of which HK\$3,859,389 (1999: HK\$23,290,000) has been charged to the investment property revaluation reserve (note 34) and the remaining balance of HK\$22,500,611 (1999: Nil) has been charged to the income statement.

The deficit arising on revaluation of the Company's investment properties of HK\$2,830,000 (1999: HK\$4,080,000) has been charged to the Company's investment property revaluation reserve.

14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings <i>HK\$</i> | Plant and machinery <i>HK\$</i> | Furniture, fixtures and equipment <i>HK\$</i> | Motor vehicles <i>HK\$</i> | Total <i>HK\$</i> |
|---|---|---------------------------------------|---|----------------------------------|----------------------|
| THE GROUP | | | | | |
| COST OR VALUATION | | | | | |
| At August 1, 1999 | 90,188,166 | 13,372,335 | 6,997,070 | 7,379,031 | 117,936,602 |
| Additions | – | – | 806,804 | – | 806,804 |
| Disposals | – | – | (3,835) | – | (3,835) |
| Upon disposal of subsidiaries | (62,291,621) | (13,372,335) | (1,456,462) | (4,150,977) | (81,271,395) |
| At July 31, 2000 | 27,896,545 | – | 6,343,577 | 3,228,054 | 37,468,176 |
| Comprising: | | | | | |
| At cost | 20,496,545 | – | 6,343,577 | 3,228,054 | 30,068,176 |
| At valuation – 1995 | 2,000,000 | – | – | – | 2,000,000 |
| At valuation – 1994 | 1,600,000 | – | – | – | 1,600,000 |
| At valuation – 1993 | 3,800,000 | – | – | – | 3,800,000 |
| | 27,896,545 | – | 6,343,577 | 3,228,054 | 37,468,176 |
| DEPRECIATION AND AMORTISATION | | | | | |
| At August 1, 1999 | 37,661,886 | 7,335,056 | 4,852,481 | 6,755,620 | 56,605,043 |
| Provided for the year | 562,597 | – | 608,327 | 151,532 | 1,322,456 |
| Provision for impairment in value | 13,865,917 | – | – | – | 13,865,917 |
| Eliminated on disposals | – | – | (1,598) | – | (1,598) |
| Eliminated on disposal of subsidiaries | (34,741,698) | (7,335,056) | (888,741) | (3,914,830) | (46,880,325) |
| At July 31, 2000 | 17,348,702 | – | 4,570,469 | 2,992,322 | 24,911,493 |
| NET BOOK VALUES | | | | | |
| At July 31, 2000 | 10,547,843 | – | 1,773,108 | 235,732 | 12,556,683 |
| At July 31, 1999 | 52,526,280 | 6,037,279 | 2,144,589 | 623,411 | 61,331,559 |

| | Leasehold land and buildings <i>HK\$</i> | Furniture, fixtures and equipment <i>HK\$</i> | Motor vehicles <i>HK\$</i> | Total <i>HK\$</i> |
|--|---|--|---|------------------------------|
| THE COMPANY | | | | |
| COST OR VALUATION | | | | |
| At August 1, 1999 | 23,162,303 | 305,546 | 1,656,295 | 25,124,144 |
| Additions | — | 40,345 | — | 40,345 |
| At July 31, 2000 | 23,162,303 | 345,891 | 1,656,295 | 25,164,489 |
| Comprising: | | | | |
| At cost | 19,562,303 | 345,891 | 1,656,295 | 21,564,489 |
| At valuation – 1995 | 2,000,000 | — | — | 2,000,000 |
| At valuation – 1994 | 1,600,000 | — | — | 1,600,000 |
| | 23,162,303 | 345,891 | 1,656,295 | 25,164,489 |
| DEPRECIATION AND AMORTISATION | | | | |
| At August 1, 1999 | 3,337,314 | 129,284 | 1,656,295 | 5,122,893 |
| Provided for the year | 419,074 | 63,798 | — | 482,872 |
| Provision for impairment in value | 13,865,917 | — | — | 13,865,917 |
| At July 31, 2000 | 17,622,305 | 193,082 | 1,656,295 | 19,471,682 |
| NET BOOK VALUES | | | | |
| At July 31, 2000 | 5,539,998 | 152,809 | — | 5,692,807 |
| At July 31, 1999 | 19,824,989 | 176,262 | — | 20,001,251 |

The directors have reviewed the carrying value of the leasehold land and buildings of the Group and the Company at July 31, 2000 and determined that the recoverable amount from the use of certain of these land and buildings had declined below their carrying value. Accordingly, the carrying value of these land and buildings was reduced by HK\$13,865,917 to reflect this impairment. Of that amount HK\$3,297,401 has been charged to the property revaluation reserve (note 34) and the remaining balance of HK\$10,568,516 has been charged to the income statement.

| | THE GROUP | | THE COMPANY | |
|------------------------------|--------------------------|--------------------------|-------------------------|--------------------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| The net book value of | | | | |
| leasehold land and buildings | | | | |
| shown above comprises: | | | | |
| Hong Kong: | | | | |
| Long leases | – | 4,269,397 | – | 4,269,397 |
| Medium-term leases | 8,737,779 | 18,845,317 | 5,539,998 | 15,555,592 |
| Outside Hong Kong: | | | | |
| Medium-term leases | 1,810,064 | 29,411,566 | – | – |
| | <u>10,547,843</u> | <u>52,526,280</u> | <u>5,539,998</u> | <u>19,824,989</u> |

Had the Group's and the Company's leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, they would have been included in these financial statements at approximately HK\$6,676,000 (1999: HK\$45,211,000) and HK\$5,953,000 (1999: HK\$16,914,000), respectively.

At July 31, 2000, the net book value of property, plant and equipment of the Group included an amount of HK\$44,200 (1999: HK\$239,420) in respect of assets held under hire purchase contracts.

15. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|-----------------------------|-----------------------------|
| | 2000 | 1999 |
| | HK\$ | HK\$ |
| Unlisted investment, at cost | 87,579,390 | 87,579,390 |
| Amounts due from subsidiaries | 423,155,633 | 315,249,941 |
| Less: Provision for impairment in value | <u>(338,681,679)</u> | <u>(216,658,026)</u> |
| | <u>172,053,344</u> | <u>186,171,305</u> |

Details of principal subsidiaries at July 31, 2000 were as follows:

| Name of subsidiary | Place of incorporation/ registration | Issued and paid up share capital/ registered capital* | Proportion of nominal value of issued/registered capital held by the Company | | Principal activities |
|-------------------------------------|---|--|--|-----------------|--|
| | | | Directly % | Indirectly % | |
| Chadbury International Limited | British Virgin Islands | US\$1 | – | 100 | Property investment |
| Hegel Trading Limited | Hong Kong | HK\$2 | 100 | – | Property investment |
| Jet Asia Development Limited | Hong Kong | HK\$2 | 100 | – | Property investment |
| Kingpower Far East Limited | Hong Kong | HK\$2 | 100 | – | Trading of marketable securities |
| Lee Tak Estates Limited | Hong Kong | HK\$17,500,000 | 100 | – | Property investment |
| Mimosa Land Company Limited | Hong Kong | HK\$200 | 100 | – | Property investment |
| Nanjing Zhong Qing Co. Ltd. | The PRC | RMB50,000,000* | – | 51 | Property development |
| Richamp Engineering Limited | Hong Kong | HK\$10,000 | – | 100 | Electrical and maintenance services |
| Tai Hing Estates Limited | Hong Kong | HK\$500,000 | 100 | – | Property investment |
| Yoshiya Property Management Limited | Hong Kong | HK\$150,000 | 100 | – | Property management and investment holding |

Other than Chadbury International Limited, which operates in Japan, all principal subsidiaries operate in their respective place of incorporation/registration.

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

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

16. SUBSIDIARIES NOT CONSOLIDATED

THE GROUP 2000 & 1999 HK\$

| | |
|---|-------------------|
| Group's share of the net assets in subsidiaries not consolidated up to the date of de-consolidation | 23,696,400 |
| Attributable goodwill previously taken directly to reserves | 15,541,253 |
| | <u>39,237,653</u> |
| Amount advanced to a subsidiary | 3,487,061 |
| | <u>42,724,714</u> |
| Less: Provision for impairment in value | (42,724,714) |
| | <u><u>—</u></u> |

Details of subsidiaries not consolidated at July 31, 2000 were as follows:

| Name of subsidiary | Place of operation and incorporation | Issued and paid up share capital | Proportion of nominal value of issued capital held by the Company | | Principal activities |
|---|--------------------------------------|----------------------------------|---|-----------------|----------------------|
| | | | Directly % | Indirectly % | |
| Rayman Trading Company Limited ("Rayman") (now in creditors' liquidation) | Hong Kong | HK\$224,500 | 41 | 10 | Activities suspended |
| Abacus Telecom Limited | Hong Kong | HK\$10,000 | — | 51 | Activities suspended |

On August 7, 1996, the directors of Rayman made a statutory declaration that Rayman together with its subsidiary, Abacus Telecom Limited (“Rayman Group”) could not, by reason of its liabilities, continue its business and it was necessary that Rayman Group be wound up. On September 4, 1996, liquidators were appointed to handle the winding up. Full provision was made in 1996 in respect of the Group’s interest in Rayman Group.

The losses relating to the subsidiaries not consolidated attributable to the Group are:

| | 2000 <i>HK\$</i> | Previous years since acquisition <i>HK\$</i> |
|--|----------------------------|--|
| Dealt with in the consolidated financial statements | <u>—</u> | <u>(125,260,770)</u> |
| Not dealt with in the consolidated financial statements | <u>—</u> | <u>—</u> |

17. INTERESTS IN ASSOCIATES

| | 2000 <i>HK\$</i> | 1999 <i>HK\$</i> |
|--|----------------------------|----------------------------|
| THE GROUP | | |
| Share of net assets of associates | 4,901,446 | 3,503,071 |
| Amounts due from associates | 1,047,750 | 1,047,750 |
| | <u>5,949,196</u> | <u>4,550,821</u> |
| THE COMPANY | | |
| Unlisted shares, at cost | 3,469,925 | 3,469,925 |
| Amounts due from associates | 1,047,750 | 1,047,750 |
| <i>Less:</i> Provision for impairment in value | <u>(838,737)</u> | <u>(838,737)</u> |
| | <u>3,678,938</u> | <u>3,678,938</u> |

The amounts due from associates are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, no part of the amount will be repaid within the next twelve months and, accordingly, the amount is presented as non-current.

Details of the principal associates as at July 31, 2000 were as follows:

| Name of associate | Place of operation and incorporation | Proportion of nominal value of issued capital held by the Company | | Principal activities |
|---|--------------------------------------|---|------------|----------------------|
| | | Directly | Indirectly | |
| | | % | % | |
| Curtis Investment Company Limited | Hong Kong | 50 | – | Property investment |
| Fairview Park Property Management Limited | Hong Kong | – | 49 | Property management |

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

18. OTHER SECURITIES

| | THE GROUP | | THE COMPANY | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Equity securities, at market or fair value | | | | |
| Listed shares | | | | |
| in Hong Kong | 13,809,120 | 22,418,950 | 10,113,480 | 17,085,770 |
| Listed shares overseas | – | 399,125 | – | 399,125 |
| Unlisted shares | 321,514 | 321,514 | 320,514 | 320,514 |
| | <u>14,130,634</u> | <u>23,139,589</u> | <u>10,433,994</u> | <u>17,805,409</u> |

19. AMOUNT DUE FROM AN INVESTEE COMPANY

The amount represents an advance to Mutual Luck Investment Limited (“Mutual Luck”), a company in which the Group holds a 15.33% interest as other securities. Mutual Luck is engaged in property investment and the advance was made for financing its acquisition of a parcel of leasehold land in Hong Kong in 1989.

The amount is unsecured, non-interest bearing (1999: bore interest at 1% above the prime rate) and has no fixed repayment terms. In the opinion of the directors, no part of the amount will be repaid within the next twelve months and the amount is therefore presented as non-current.

20. PROPERTIES UNDER DEVELOPMENT FOR SALE

| | THE GROUP | |
|--|-------------------|-------------------|
| | 2000 | 1999 |
| | HK\$ | HK\$ |
| COST LESS PROVISION | | |
| Balance brought forward | 60,529,332 | 64,049,740 |
| Currency realignment | — | 102,047 |
| Additions | 113,299 | 9,168,021 |
| Disposals | — | (9,193,962) |
| Eliminated upon disposal of a subsidiary | (7,108,526) | — |
| Less: Provision for impairment in value | — | (3,596,514) |
| | <u>53,534,105</u> | <u>60,529,332</u> |
| Balance carried forward | <u>53,534,105</u> | <u>60,529,332</u> |

The Group's properties under development for sale at July 31, 2000 are held on medium-term land use rights in the PRC.

Details of the properties under development for sale at July 31, 2000 are set out on page 66 of the annual report.

21. PROPERTIES HELD FOR SALE

| | THE GROUP | | THE COMPANY | |
|-------------------------|-------------------|-------------------|----------------|----------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Properties in Hong Kong | 30,555,994 | 30,555,994 | 206,207 | 206,207 |
| Properties in Japan | 42,780,000 | 42,408,976 | — | — |
| Properties in the PRC | — | 1,962,104 | — | — |
| | <u>73,335,994</u> | <u>74,927,074</u> | <u>206,207</u> | <u>206,207</u> |

Included above are properties in Japan of HK\$42,780,000 (1999: HK\$42,408,976) and properties in the PRC of HK\$Nil (1999: HK\$54,723) which are carried at net realisable value.

Details of the properties held for sale at July 31, 2000 are set out on page 66 of the annual report.

22. INVENTORIES

| | THE GROUP | |
|----------------|------------------|------------------|
| | 2000 | 1999 |
| | HK\$ | HK\$ |
| Raw materials | — | 2,646,218 |
| Finished goods | — | 2,772,836 |
| | <u>—</u> | <u>5,419,054</u> |

23. TRADE AND OTHER RECEIVABLES

The Group and the Company allows an average credit period of 30 days (1999: 60 days) to its trade customers. The ageing analysis of trade receivables is stated as follows:

| | THE GROUP | | THE COMPANY | |
|-------------------------|-------------------------|-------------------|-----------------------|----------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| 0 to 60 days | 3,890,251 | 10,797,871 | 19,664 | 37,257 |
| 61 to 90 days | 9,800 | 74,065 | — | — |
| 91 days or above | 8,500 | 62,987 | — | — |
| | <u>3,908,551</u> | <u>10,934,923</u> | <u>19,664</u> | <u>37,257</u> |
| Total trade receivables | 3,908,551 | 10,934,923 | 19,664 | 37,257 |
| Other receivables | 1,090,811 | 11,117,700 | 180,358 | 364,155 |
| | <u>4,999,362</u> | <u>22,052,623</u> | <u>200,022</u> | <u>401,412</u> |

24. LOAN RECEIVABLE FROM A MINORITY SHAREHOLDER

The amount was unsecured, bore interest at 7% per annum and was fully repaid during the year.

25. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables is stated as follows:

| | THE GROUP | | THE COMPANY | |
|----------------------|-------------------|-------------------|------------------|------------------|
| | 2000 HK\$ | 1999 HK\$ | 2000 HK\$ | 1999 HK\$ |
| 0 to 60 days | 3,195,278 | 12,334,996 | 4,872 | 18,000 |
| 91 days or above | 5,163,437 | 5,018,720 | — | — |
| Total trade payables | 8,358,715 | 17,353,716 | 4,872 | 18,000 |
| Other payables | 6,035,309 | 24,379,588 | 1,395,594 | 1,235,831 |
| | <u>14,394,024</u> | <u>41,733,304</u> | <u>1,400,466</u> | <u>1,253,831</u> |

26. AMOUNT DUE TO AN ASSOCIATE

The Group and the Company

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

27. AMOUNT DUE TO AN INVESTEE COMPANY

The Group and the Company

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

28. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

| | THE GROUP | |
|--|-----------------|-----------------|
| | 2000 HK\$ | 1999 HK\$ |
| Obligations under hire purchase contracts are repayable as follows: | | |
| Within one year | 17,438 | 48,524 |
| More than one year, but not exceeding two years | — | 17,438 |
| | <u>17,438</u> | <u>65,962</u> |
| Less: Amount due within one year classified as current liabilities | <u>(17,438)</u> | <u>(48,524)</u> |
| Amount due after one year | <u>—</u> | <u>17,438</u> |

29. BANK AND OTHER BORROWINGS

| | THE GROUP | | THE COMPANY | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Bank loans | 47,303,184 | 39,092,105 | 12,000,000 | 12,000,000 |
| Bank overdrafts | 28,050,125 | 29,720,931 | 16,982,915 | 16,015,377 |
| Mortgage loans | 6,815,716 | 8,934,961 | 2,741,279 | 4,685,041 |
| Other loans | — | 2,706,471 | — | 2,706,471 |
| | <u>82,169,025</u> | <u>80,454,468</u> | <u>31,724,194</u> | <u>35,406,889</u> |
| Secured | 82,169,025 | 77,080,522 | 31,724,194 | 35,406,889 |
| Unsecured | — | 3,373,946 | — | — |
| | <u>82,169,025</u> | <u>80,454,468</u> | <u>31,724,194</u> | <u>35,406,889</u> |
| The bank and other borrowings are repayable within the periods as follows: | | | | |
| Within one year or upon demand | 57,443,541 | 51,561,174 | 31,146,408 | 32,670,236 |
| More than one year but not exceeding two years | 2,816,578 | 4,174,508 | 577,786 | 2,161,433 |
| More than two years but not exceeding five years | 8,308,464 | 8,061,998 | — | 575,220 |
| More than five years | 13,600,442 | 16,656,788 | — | — |
| | <u>82,169,025</u> | <u>80,454,468</u> | <u>31,724,194</u> | <u>35,406,889</u> |
| Less: Amount due within one year classified as current liabilities | <u>(57,443,541)</u> | <u>(51,561,174)</u> | <u>(31,146,408)</u> | <u>(32,670,236)</u> |
| Amount due after one year | <u>24,725,484</u> | <u>28,893,294</u> | <u>577,786</u> | <u>2,736,653</u> |

30. CONVERTIBLE NOTES

The convertible notes were unsecured, bore interest at 7% per annum and were redeemed by the Company during the year.

31. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the directors, no part of the amount will be repaid within the next twelve months and the amount is therefore presented as non-current.

32. SHARE CAPITAL

| | Number of ordinary shares | Amount HK\$ |
|---|------------------------------|--------------------|
| Ordinary shares of HK\$0.40 each | | |
| <i>Authorised:</i> | | |
| At August 1, 1998, July 31, 1999 and July 31, 2000 | <u>750,000,000</u> | <u>300,000,000</u> |
| <i>Issued and fully paid:</i> | | |
| At August 1, 1998 | 378,999,630 | 151,599,852 |
| Consideration for the acquisition of a subsidiary | <u>20,000,000</u> | <u>8,000,000</u> |
| At July 31, 1999 | 398,999,630 | 159,599,852 |
| Issue of shares on exercise of share options | <u>3,000,000</u> | <u>1,200,000</u> |
| At July 31, 2000 | <u>401,999,630</u> | <u>160,799,852</u> |

During the year ended July 31, 1999, 20,000,000 shares of HK\$0.40 each in the Company were issued at par as part of the total consideration of HK\$68,000,000 for the Group's acquisition of a subsidiary. These new shares were issued under the general mandate granted to the directors at the annual general meeting held on December 29, 1998.

During the year ended July 31, 2000, 3,000,000 shares of HK\$0.40 each in the Company were issued at a price of HK\$0.5712 per share upon the exercise of share options granted under the share option scheme of the Company as detailed in note 33.

All the shares issued above rank pari passu with the then existing shares in all respects.

Details of a change in issued share capital of the Company subsequent to the balance sheet date are set out in note 45.

33. SHARE OPTION SCHEME

Pursuant to the employees' share option scheme adopted on March 7, 1997, the Board of Directors of the Company may grant options to eligible employees, including directors, of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80 percent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options. The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10 percent of the issued share capital of the Company from time to time.

Details of the movements during the year and the balances of unexercised options at July 31, 2000 under the scheme are as follows:

| Exercisable period | Exercise price per share, subject to adjustment <i>HK\$</i> | Number of share options | | |
|--|--|-------------------------|---------------------------------|------------------------|
| | | At August 1, 1999 | Exercised during the year | At July 31, 2000 |
| April 8, 1997 to March 6, 2007 | 0.5712 | 6,000,000 | (3,000,000) | 3,000,000 |
| September 10, 1997 to March 6, 2007 | 1.0400 | 3,000,000 | — | 3,000,000 |
| | | <u>9,000,000</u> | <u>(3,000,000)</u> | <u>6,000,000</u> |

Consideration received by the Company for the options granted is nominal.

34. RESERVES

| | Share premium HK\$ | Capital reserve HK\$ | Special capital reserve (note) HK\$ | Investment property revaluation reserve HK\$ | Investment revaluation reserve HK\$ | Property revaluation reserve HK\$ | Currency translation reserve HK\$ | Capital redemption reserve HK\$ | Deficit HK\$ | Total HK\$ |
|--|--------------------------|----------------------------|---|--|--|--|--|--|---------------------|--------------------|
| THE GROUP | | | | | | | | | | |
| Balance at August 1, 1998 | | | | | | | | | | |
| – as previously reported | 250,874,944 | 103,639 | 9,278,080 | 27,149,389 | – | 7,449,507 | (30,386,396) | 268,000 | (48,295,987) | 216,441,176 |
| – prior period adjustment | – | – | – | – | (17,853,652) | – | – | – | – | (17,853,652) |
| – as restated | 250,874,944 | 103,639 | 9,278,080 | 27,149,389 | (17,853,652) | 7,449,507 | (30,386,396) | 268,000 | (48,295,987) | 198,587,524 |
| Deficit arising on revaluation of investment properties | – | – | – | (23,290,000) | – | – | – | – | – | (23,290,000) |
| Arising on acquisition of interest in a subsidiary | – | 48,932 | – | – | – | – | – | – | – | 48,932 |
| Eliminated on disposal of subsidiaries | – | – | – | – | – | – | 304,230 | – | – | 304,230 |
| Exchange difference arising on consolidation | – | – | – | – | – | – | 9,324,067 | – | – | 9,324,067 |
| Realised on disposal of other securities | – | – | – | – | 309,281 | – | – | – | – | 309,281 |
| Revaluation surplus during the year | – | – | – | – | 11,172,245 | – | – | – | – | 11,172,245 |
| Write off of goodwill, which was previously taken directly to reserve, on streamlining of the Group's operations | – | – | – | – | – | – | – | – | 12,019,890 | 12,019,890 |
| Net loss for the year (as restated) | – | – | – | – | – | – | – | – | (23,474,145) | (23,474,145) |
| Balance at July 31, 1999 | 250,874,944 | 152,571 | 9,278,080 | 3,859,389 | (6,372,126) | 7,449,507 | (20,758,099) | 268,000 | (59,750,242) | 185,002,024 |
| Deficit arising on revaluation of investment properties | – | – | – | (3,859,389) | – | – | – | – | – | (3,859,389) |
| Provision for impairment in value of property, plant and equipment (note 14) | – | – | – | – | – | (3,297,401) | – | – | – | (3,297,401) |
| Eliminated on disposal of subsidiaries | – | – | – | – | – | – | 3,495,677 | – | – | 3,495,677 |
| Exchange difference arising on consolidation | – | – | – | – | – | – | 2,724,794 | – | – | 2,724,794 |
| Realised on disposal of other securities | – | – | – | – | 635,958 | – | – | – | – | 635,958 |
| Revaluation deficit during the year | – | – | – | – | (5,634,257) | – | – | – | – | (5,634,257) |
| Issue of shares on exercise of share options | 513,600 | – | – | – | – | – | – | – | – | 513,600 |
| Net loss for the year | – | – | – | – | – | – | – | – | (37,837,581) | (37,837,581) |
| Balance at July 31, 2000 | <u>251,388,544</u> | <u>152,571</u> | <u>9,278,080</u> | <u>–</u> | <u>(11,370,425)</u> | <u>4,152,106</u> | <u>(14,537,628)</u> | <u>268,000</u> | <u>(97,587,823)</u> | <u>141,743,425</u> |

Included in the above are the following Group's share of post-acquisition reserves of the associates:

| | Share premium HK\$ | Capital reserve HK\$ | Special capital reserve (note) HK\$ | Investment property revaluation reserve HK\$ | Investment revaluation reserve HK\$ | Property revaluation reserve HK\$ | Currency translation reserve HK\$ | Capital redemption reserve HK\$ | Deficit HK\$ | Total HK\$ |
|--|--------------------------|----------------------------|---|--|--|--|--|--|----------------------|--------------------|
| Balance at August 1, 1998 | - | - | - | - | - | - | - | - | 438,377 | 438,377 |
| Profit for the year | - | - | - | - | - | - | - | - | 1,577,699 | 1,577,699 |
| Balance at July 31, 1999 | - | - | - | - | - | - | - | - | 2,016,076 | 2,016,076 |
| Profit for the year | - | - | - | - | - | - | - | - | 1,748,375 | 1,748,375 |
| Dividend | - | - | - | - | - | - | - | - | (350,000) | (350,000) |
| Balance at July 31, 2000 | - | - | - | - | - | - | - | - | 3,414,451 | 3,414,451 |
| THE COMPANY | | | | | | | | | | |
| Balance at August 1, 1998 | | | | | | | | | | |
| - as previously reported | 250,874,944 | 2,127,479 | 9,278,080 | 32,347,576 | - | 3,297,401 | - | 268,000 | (83,401,679) | 214,791,801 |
| - prior period adjustment | - | - | - | - | (13,132,765) | - | - | - | (126,270) | (13,259,035) |
| - as restated | 250,874,944 | 2,127,479 | 9,278,080 | 32,347,576 | (13,132,765) | 3,297,401 | - | 268,000 | (83,527,949) | 201,532,766 |
| Deficit arising on revaluation of investment properties | - | - | - | (4,080,000) | - | - | - | - | - | (4,080,000) |
| Realised on disposal of other securities | - | - | - | - | 309,281 | - | - | - | - | 309,281 |
| Revaluation surplus during the year | - | - | - | - | 8,683,923 | - | - | - | - | 8,683,923 |
| Net loss for the year (as restated) | - | - | - | - | - | - | - | - | (21,173,054) | (21,173,054) |
| Balance at July 31, 1999 | 250,874,944 | 2,127,479 | 9,278,080 | 28,267,576 | (4,139,561) | 3,297,401 | - | 268,000 | (104,701,003) | 185,272,916 |
| Deficit arising on revaluation of investment properties | - | - | - | (2,830,000) | - | - | - | - | - | (2,830,000) |
| Provision for impairment in value of property, plant and equipment (note 14) | - | - | - | - | - | (3,297,401) | - | - | - | (3,297,401) |
| Issue of shares on exercise of share options | 513,600 | - | - | - | - | - | - | - | - | 513,600 |
| Realised on disposal of other securities | - | - | - | - | 489,351 | - | - | - | - | 489,351 |
| Revaluation deficit during the year | - | - | - | - | (4,070,715) | - | - | - | - | (4,070,715) |
| Net loss for the year | - | - | - | - | - | - | - | - | (42,828,002) | (42,828,002) |
| Balance at July 31, 2000 | 251,388,544 | 2,127,479 | 9,278,080 | 25,437,576 | (7,720,925) | - | - | 268,000 | (147,529,005) | 133,249,749 |

At July 31, 2000, the Company had no reserve available for distribution to the shareholders.

Note:

On January 13, 1997, as a condition for the reduction of the authorised share capital of the Company from HK\$300,000,000 to HK\$120,000,000, the Company by its Counsel had given an undertaking to the Supreme Court as set out in the Order on Summons for Directors. The undertaking goes:

- (a) as long as there shall remain any debt or liability of or claim against the Company outstanding as at January 20, 1997, being the date when the reduction of capital becomes effective (the “Effective Date”), the Company shall credit to a special capital reserve (the “Special Capital Reserve”) any amount taken into account in the accounting records of the Company for the year ended July 31, 1996 by way of provision or unrealised losses in respect of the advance of HK\$14,193,972 to and assumption as a guarantor of liability of HK\$105,368,592 incurred by Rayman which is recovered after the Effective Date and the amount in the Special Capital Reserve shall not be treated as realised profit and shall be treated as an undistributable reserve of the Company. However, the amount standing to the credit of the Special Capital Reserve shall not exceed either HK\$115,856,518 or the amount due at any time to the creditors of the Company as at the Effective Date, whichever is the lesser, and may be reduced by any increase in the issued share capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves; and
- (b) a summary of such undertaking will be disclosed in the Company’s audited financial statements until it shall no longer be applicable.

The special capital reserve of the Group and the Company represents the release of Rayman’s bank loans assumed by the Company.

35. DEFERRED TAXATION ASSET NOT RECOGNISED

Deferred taxation asset in respect of tax losses available to set off future profits has not been recognised in the financial statements as it is not certain that the asset will crystallise in the foreseeable future.

At the balance sheet date, the major components of unrecognised deferred taxation (assets) liabilities are as follows:

| | THE GROUP | | THE COMPANY | |
|--|--------------------|--------------------|------------------|--------------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Tax effect of timing differences because of: | | | | |
| Difference between tax allowances and depreciation | 65,000 | 137,000 | (1,000) | (5,000) |
| Unutilised tax losses | (5,683,000) | (4,588,000) | (928,000) | (1,533,000) |
| Other timing differences | — | 96,000 | — | 148,000 |
| | <u>(5,618,000)</u> | <u>(4,355,000)</u> | <u>(929,000)</u> | <u>(1,390,000)</u> |

The amount of unrecognised deferred taxation credit (charge) for the year is as follows:

| | THE GROUP | | THE COMPANY | |
|--|------------------|--------------------|------------------|--------------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Tax effect of timing differences because of: | | | | |
| Shortfall (excess) of tax allowances over depreciation | 72,000 | (67,000) | (4,000) | (5,000) |
| Tax losses incurred (utilised) | 1,095,000 | (1,321,000) | (605,000) | (2,452,000) |
| Other timing differences | 96,000 | (376,000) | 148,000 | (352,000) |
| | <u>1,263,000</u> | <u>(1,764,000)</u> | <u>(461,000)</u> | <u>(2,809,000)</u> |

Deferred taxation has not been provided on the revaluation surplus arising on the revaluation of certain land and buildings in Hong Kong as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

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

| | 2000 HK\$ | 1999 HK\$ (As restated) |
|--|-------------------|-------------------------------|
| Loss before taxation | (37,679,333) | (29,281,256) |
| Share of results of associates | (2,067,068) | (1,889,060) |
| Loss (gain) on disposal of subsidiaries | 70,510 | (3,461,552) |
| Interest expenses | 9,307,820 | 9,699,137 |
| Dividend income from investments in securities | (528,091) | (207,585) |
| Depreciation and amortisation | 1,322,456 | 6,472,096 |
| Loss on disposal of other securities | 761,224 | 681,122 |
| Loss on disposal of property, plant and equipment | 2,237 | 341,615 |
| Loss on liquidation of an associate | – | 10,403 |
| Impairment loss of other securities | – | 269,726 |
| Provision for bad and doubtful debts | – | 1,874,414 |
| Provision for properties held for sale | 2,353,770 | – |
| Unrealised holding loss on trading securities | 292,942 | 919,299 |
| Deficit on revaluation of investment properties | 22,500,611 | – |
| Provision for impairment in value of property, plant and equipment | 10,568,516 | 14,889,513 |
| Write off of goodwill, which was previously taken directly to reserve, on streamlining of the Group's operations | – | 12,019,890 |
| Provision for impairment in value of properties under development for sale | – | 3,596,514 |
| Increase in amount due from an investee company | – | (11,640,137) |
| Increase in properties under development for sale | (113,299) | – |
| Decrease (increase) in inventories | 1,125,699 | (58,419) |
| Increase in trade and other receivables | (1,882,919) | (9,947,100) |
| Decrease (increase) in trading securities | 4,211,323 | (4,666,274) |
| Increase in trade and other payables | 1,551,198 | 10,387,237 |
| Net cash inflow from operating activities | <u>11,797,596</u> | <u>9,583</u> |

37. DISPOSAL OF SUBSIDIARIES

| | 2000 HK\$ | 1999 HK\$ |
|--|-------------------|--------------|
| Net assets disposal of: | | |
| Property, plant and equipment | 34,391,070 | 33,670,698 |
| Property, plant and machinery held for sale | – | 90,066,181 |
| Properties under development for sale | 7,108,526 | – |
| Properties held for sale | 1,962,104 | – |
| Inventories | 4,293,355 | 1,605,199 |
| Trade and other receivables | 18,936,180 | 12,602,389 |
| Compensation receivable | – | 3,520,774 |
| Bank balances and cash | 13,178,551 | 576,086 |
| Trade and other payables | (28,890,478) | (70,589,472) |
| Bank loans and overdrafts – matured within three months from date of advance | (3,373,946) | (4,556,936) |
| Bank and other loans – matured after three months from date of advance | – | (59,422,686) |
| Currency translation | 3,495,677 | 304,230 |
| Minority interests | (26,281,701) | (11,238,007) |
| | 24,819,338 | (3,461,544) |
| (Loss) gain on disposal of subsidiaries | | |
| – continuing operations | (31,842) | 3,446,940 |
| – discontinued operations | (38,668) | 14,612 |
| | <u>24,748,828</u> | <u>8</u> |
| Satisfied by: | | |
| Cash consideration received | 15,168,536 | 8 |
| Balance of consideration receivable on disposal of subsidiaries | 9,580,292 | – |
| Total consideration | <u>24,748,828</u> | <u>8</u> |

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

| | 2000 | 1999 |
|--|-------------------------|-------------------------|
| | HK\$ | HK\$ |
| Cash consideration received | 15,168,536 | 8 |
| Bank balances and cash disposed of | (13,178,551) | (576,086) |
| Bank loans and overdrafts disposed of – matured within three months from date of advance | 3,373,946 | 4,556,936 |
| Net inflow of cash and cash equivalents | <u>5,363,931</u> | <u>3,980,858</u> |

The subsidiaries disposed of in both years did not contribute significantly to the Group's cash flows or operating results.

38. PURCHASE OF A SUBSIDIARY

| | 2000 | 1999 |
|--|-----------------|--------------------------|
| | HK\$ | HK\$ |
| Net assets acquired: | | |
| Investment properties | – | 68,000,000 |
| Trade and other receivables | – | 48,932 |
| Amount due to a former shareholder | – | (52,364,365) |
| | – | 15,684,567 |
| Capital reserve arising on consolidation | – | (48,932) |
| | <u>–</u> | <u>15,635,635</u> |
| Satisfied by: | | |
| Issue of shares | – | 8,000,000 |
| Interest in a property development project | – | 60,000,000 |
| Assignment of amount due to a former shareholder | – | (52,364,365) |
| | <u>–</u> | <u>15,635,635</u> |

The subsidiary acquired in the prior year did not contribute significantly to the Group's cash flows or operating results.

39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Share capital and share premium HK\$ | Bank loans HK\$ | Mortgage loans HK\$ | Other loans HK\$ | Convertible notes HK\$ | Amounts due to associates HK\$ | Obligations under hire purchase contracts HK\$ |
|---|---|-----------------------|---------------------------|------------------------|------------------------------|---|--|
| Balance at August 1, 1998 | 402,474,796 | 87,643,764 | 10,835,119 | 10,425,121 | 23,000,000 | 550,000 | 186,666 |
| Effect of foreign exchange rate changes | – | 9,146,877 | – | 2,556,924 | – | – | – |
| Issue of shares for non-cash consideration (note 38) | 8,000,000 | – | – | – | – | – | – |
| New loans raised | – | 25,000,000 | – | – | – | – | – |
| Advance during the year | – | – | – | – | – | 100,000 | – |
| Repayments during the year | – | (39,631,841) | (1,900,158) | – | – | – | (120,704) |
| Eliminated on disposals of subsidiaries | – | (46,440,641) | – | (12,982,045) | – | – | – |
| Balance at July 31, 1999 | 410,474,796 | 35,718,159 | 8,934,961 | – | 23,000,000 | 650,000 | 65,962 |
| Issue of shares on exercise of share options | 1,713,600 | – | – | – | – | – | – |
| New loans raised | – | 20,000,000 | – | – | – | – | – |
| Advance during the year | – | – | – | – | – | 200,000 | – |
| Repayments during the year | – | (8,414,975) | (2,119,245) | – | (23,000,000) | (200,000) | (48,524) |
| Balance at July 31, 2000 | 412,188,396 | 47,303,184 | 6,815,716 | – | – | 650,000 | 17,438 |

40. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group and the Company with the following net book values have been pledged to banks to secure banking facilities granted to the Group and the Company:

| | THE GROUP | | THE COMPANY | |
|----------------------------------|-------------------|-------------|-------------------|------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| | (As restated) | | (As restated) | |
| Property, plant and equipment | 8,738,000 | 23,115,000 | 5,540,000 | 19,825,000 |
| Investment properties | 52,150,000 | 64,300,000 | 32,550,000 | 35,380,000 |
| Properties held for sale | 20,074,000 | 24,074,000 | – | – |
| Listed Shares in Hong Kong | 10,400,000 | 14,913,000 | 9,278,000 | 14,913,000 |
| | 91,362,000 | 126,402,000 | 47,368,000 | 70,118,000 |

41. RETIREMENT BENEFIT SCHEME

The Group operates defined contributions schemes for all qualified employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The retirement benefit cost represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. For the year ended July 31, 2000, retirement benefit scheme contributions of the Group before reduction by forfeited contributions of HK\$931,563 (1999: HK\$163,369) amounted to HK\$820,082 (1999: HK\$980,115).

At the balance sheet date, the Group had no (1999: Nil) forfeited contributions, which arise upon employees leaving the retirement benefit scheme and which are available to reduce the contributions payable in future years.

42. COMMITMENTS

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

| | 2000 <i>HK\$</i> | 1999 <i>HK\$</i> |
|--|----------------------------|-------------------------|
| Contracted for but not provided for in the financial statements in respect of acquisition of property, plant and equipment | <u>1,600,000</u> | <u>8,053,000</u> |

At the balance sheet date, the Company had no significant capital commitments.

43. OPERATING LEASE COMMITMENTS

At July 31, 2000, the Group had no significant operating lease commitments. The commitments at July 31, 1999 of the Group to make payment in the following year under non-cancellable operating leases were as follows:

| | Leasehold land and buildings <i>HK\$</i> | Plant and machinery <i>HK\$</i> |
|---|--|---|
| Operating leases which expire over five years | <u>1,132,000</u> | <u>984,000</u> |

At the balance sheet date, the Company had no significant operating lease commitments.

44. CONTINGENT LIABILITIES

At July 31, 2000, the Company had outstanding guarantees issued in favour of a bank for securing banking facilities made available to a subsidiary amounting to HK\$20,000,000 (1999: Nil).

45. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to the balance sheet date:

- (a) On August 18, 2000, the Company entered into a subscription agreement to issue 80,399,926 new ordinary shares of HK\$0.40 each in the Company to Rocket High Investments Limited, a company beneficially and wholly owned by a director of Far East Consortium International Limited, a substantial shareholder of the Company, at a price of HK\$0.40 per share. This represented a discount of approximately 2.4% to the closing price of HK\$0.41 per share as quoted on the Stock Exchange on August 18, 2000 (being the date of the subscription agreement) and approximately 2.6% premium over the average of the closing prices of approximately HK\$0.39 per share as quoted on the Stock Exchange for the last 10 trading days up to and including August 18, 2000. Net proceeds resulted from such issue of approximately HK\$31,700,000 were used to reduce the Group's bank borrowings and for future investment purposes. The shares were issued on October 11, 2000 pursuant to the mandate granted to the directors of the Company at the extraordinary general meeting of the Company held on September 28, 2000 and rank pari passu in all respects with the then existing issued shares of the Company.
- (b) On October 14, 2000, the Group entered into various conditional agreements with independent third parties to dispose of its entire interests in Mimosa Land Company Limited, Jet Asia Development Limited and certain of its investment properties in Lee Tak Estates Limited at an aggregate consideration of approximately HK\$19,368,000 less the amount of outstanding mortgage loans in those companies as at the completion date of the sale if the existing legal charge of properties in those companies has not been discharged or released on or before the completion of the sale. On the same date, the Company entered into two other conditional agreements to dispose of certain of its investment and leasehold properties with an aggregate net book value of approximately HK\$36,340,000 for a consideration of approximately HK\$33,440,000.
- (c) On November 4, 2000, the Company entered into a conditional sale and purchase agreement with a third party (the "Vendor") whereby the Company agreed to acquire a 40% interest of Worldwide IP Communications Limited, a company incorporated in the British Virgin Islands, which is principally engaged in the business of internet communication products and services, for a consideration of HK\$168,000,000. This consideration will be satisfied as to HK\$78,000,000

in cash and as to HK\$90,000,000 by the transfer of the Company's entire interests in Tai Hing Estates Limited and Yoshiya Property Management Limited. Full details of the transaction were contained in an announcement of the Company dated November 6, 2000.

46. RELATED PARTY DISCLOSURES

In September 1999, the Group disposed of its entire interests in Wuhan Han-ki Real Estate Development Engineering & Decoration Co., Ltd. and Guangzhou Jessica to the respective minority shareholders for cash consideration of approximately HK\$3,700,000 and HK\$21,000,000, respectively. The transactions were carried out at terms determined and agreed by relevant parties.

For the year ended July 31, 2000, the Group received interest income from loan receivable from a minority shareholder amounted to HK\$24,548 (1999: HK\$58,110). The Group also received interest income from an investee company of HK\$11,632,777 for the year ended July 31, 1999.

Details of the balances with the related parties are set out in the balance sheets and notes 17, 19, 24, 26, 27 and 31.