

Notes to Financial Statements

(31 December 2000)

1. CORPORATE INFORMATION

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

- Property development and investment
- Property management services
- Horticultural services

2. 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 remeasurement of land and buildings, investment properties and short term 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 December 2000. 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 in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associate

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

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value, other than those considered to be temporary in nature, deemed necessary by the directors.

Goodwill/capital reserve arising on consolidation

Goodwill arising on the consolidation of subsidiaries and on the acquisition of an associate represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. Where the fair values ascribed to the net underlying assets acquired exceed the purchase consideration given, the excess is credited to capital reserve in the year of acquisition.

On disposal of subsidiaries or an associate, the relevant portion of attributable goodwill previously eliminated against reserves, or capital reserve credited to reserve on consolidation, is realised and accounted for in determining the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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.

For assets stated at valuation, changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

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

Leasehold land	Over the lease terms
Buildings	2.5%
Equipment	20%
Furniture and fixtures	20%
Motor vehicles	20%

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 with unexpired lease terms of more than twenty years 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development

Properties under development for long term investment purposes are stated at cost, which comprises land and development costs including attributable interest and professional charges capitalised during the development period, less any provisions for permanent diminution in value and foreseeable loss deemed necessary by the directors.

Properties under development for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

Property held for future development

Property held for future development is stated at cost less any provision for diminution in value deemed necessary by the directors.

Properties held for sale

Properties held for sale are classified as current assets and stated at the lower of cost and net realisable value. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprises direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method when the outcome of contracts can be ascertained with reasonable certainty and when the value of work certified by the project architect exceeds 30% of the contract value.

Provision is made for foreseeable losses and contingencies as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the standard cost basis which approximates the average actual cost and comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Capitalised borrowing costs

Borrowing costs directly attributable to financing the construction and development of properties under development are capitalised and are included in the carrying value of these assets. Interest is capitalised at the interest rate related to specific development project borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

Deferred tax

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

Foreign currencies

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

On consolidation, the financial statements of subsidiaries and an associate denominated in other currencies 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis and are held for an identified long term purpose.

The securities are stated at cost less provisions for any diminutions in values which are expected to be other than those considered to be temporary and deemed necessary by the directors on an individual investment basis. The diminutions in values are charged to the profit and loss account for the period in which they arise.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their 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 period in which they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

- (a) rental income, on straight line basis over the leases terms;
- (b) management fee income, when services are rendered;
- (c) the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (d) construction contracts, on the percentage of completion basis as further explained under accounting policy note for construction contracts;
- (e) the disposal of properties, when the legally binding sales contract is signed and exchanged and the transaction becomes unconditional;
- (f) trading of listed investments, on the transaction date;
- (g) dividends, when the shareholders' right to receive payment is established; and
- (h) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

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3. TURNOVER AND REVENUE

Turnover represents the aggregate income from property investment and management services, property construction and development and horticultural services.

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

	2000 HK\$	1999 HK\$
Property investment and management	140,329,689	36,090,786
Horticultural services	3,434,876	3,462,501
Property construction and development	–	780,000
Turnover	143,764,565	40,333,287
Proceeds from disposal of listed investments	5,876,539	6,298,400
Interest income	792,840	4,014,538
Proceeds from disposal of fixed assets	899,793	26,061
Write-back of cost overprovided on construction projects	949,631	855,608
Others	1,959,455	1,311,237
	154,242,823	52,839,131

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4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2000 HK\$	1999 HK\$
Depreciation	2,118,842	1,978,884
Operating lease rentals on land and buildings	181,358	1,144,404
Auditors' remuneration	364,000	366,109
Loss on disposal of property under development	108,494,734	–
Deficit on revaluation of land and buildings	–	227,296
Provision for diminution in value of long term unlisted investments	945,125	–
Provision for diminution in value of listed investments	1,490,306	–
Staff costs (excluding directors' remuneration (note 5)):		
Salaries and allowances	11,753,334	11,029,313
Pension contributions	10,840	21,091
	11,764,174	11,050,404
Exchange losses/(gains), net	59,217	(12,253)
Rental income, gross of HK\$33,507,110 (1999: HK\$34,143,924) less outgoings of HK\$3,439,605 (1999: HK\$3,583,565)	(30,067,505)	(30,560,359)
Interest income	(792,840)	(4,014,538)
Loss/(gain) on disposal of fixed assets	(421,141)	146,084
Gain on disposal of listed investments	(196,139)	(246,407)

Notes to Financial Statements

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5. DIRECTORS' REMUNERATION

	2000 HK\$	1999 HK\$
Fees:		
Executive directors	-	-
Independent non-executive directors	200,000	200,000
	200,000	200,000
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	5,156,362	5,232,106
	5,356,362	5,432,106

The emoluments disclosed above do not include the monetary value of rent-free accommodation provided to an executive director of the Company through a property owned by the Group. The monetary value of such residential accommodation provided to the director based on the tenancy agreement entered by two of the Group companies was HK\$1,080,000 (1999: HK\$1,080,000) during the year.

The remuneration of the directors for the year fell within the following bands:

	Number of directors	
	2000	1999
Nil-HK\$1,000,000	4	5
HK\$1,000,001-HK\$1,500,000	2	2
HK\$2,500,001-HK\$3,000,000	1	1
	7	8

No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors.

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

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6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included three (1999: two) directors, details of whose remuneration are set out above and in note 5 to the financial statements. The details of the remuneration of the remaining two (1999: three) non-director, highest paid employees are set out below:

	2000	1999
	HK\$	HK\$
Salaries and allowances	3,448,584	4,546,584
Bonuses paid and payable	287,382	374,382
	3,735,966	4,920,966

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
Nil–HK\$1,000,000	–	–
HK\$1,000,001–HK\$1,500,000	–	1
HK\$1,500,001–HK\$2,000,000	1	1
HK\$2,000,001–HK\$2,500,000	1	1
	2	3

7. FINANCE COSTS

	Group	
	2000	1999
	HK\$	HK\$
Interest on bank loans and overdrafts	44,285,621	43,596,687
Interest on a convertible loan fully repaid during the year	–	1,615,950
Total finance costs	44,285,621	45,212,637
Interest capitalised	(2,946,677)	–
	41,338,944	45,212,637

Notes to Financial Statements

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8. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2000	Group
	HK\$	1999
		HK\$
Company and subsidiaries:		
Under/(over)provision in prior years		
Hong Kong, The People's Republic of China (the "PRC")	937,226	(96,145)
Elsewhere	(5,838,971)	–
	(4,901,745)	(96,145)
Share of tax attributable to an associate:		
Hong Kong, the PRC	–	–
Elsewhere	280,896	763,678
Tax charge/(credit) for the year	(4,620,849)	667,533

No provision for deferred tax has been made as the effect of all timing differences is immaterial.

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.

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$21,172,028 (1999: net profit of HK\$56,929,914).

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10. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$151,606,595 (1999: HK\$31,443,219) and the weighted average of 687,224,026 (1999: 690,712,993) ordinary shares in issue during the year.

The fully diluted loss per share is not shown for both years because the effect of any dilution is anti-dilutive.

11. FIXED ASSETS

Group

	Land and buildings	Investment properties	Equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost or valuation:						
At beginning of year	45,371,748	1,077,800,000	2,600,717	6,857,752	7,803,172	1,140,433,389
Additions	–	588,215	295,803	349,408	357,240	1,590,666
Disposal	–	–	(469,747)	(8,450)	(2,078,691)	(2,556,888)
Revaluation surplus, net	–	24,411,785	–	–	–	24,411,785
Exchange realignment	–	–	(25,442)	–	(2,062)	(27,504)
At 31 December 2000	45,371,748	1,102,800,000	2,401,331	7,198,710	6,079,659	1,163,851,448
Analysis of cost or valuation:						
At cost	–	–	2,401,331	7,198,710	6,079,659	15,679,700
At 31 December 2000 valuation	45,371,748	1,102,800,000	–	–	–	1,148,171,748
	45,371,748	1,102,800,000	2,401,331	7,198,710	6,079,659	1,163,851,448
Accumulated depreciation:						
At beginning of year	–	–	1,721,619	3,737,764	6,811,965	12,271,348
Provided during the year	574,960	–	286,785	1,066,478	190,619	2,118,842
Disposal	–	–	(463,574)	(7,323)	(1,607,339)	(2,078,236)
Written back on revaluation	(574,960)	–	–	–	–	(574,960)
Exchange realignment	–	–	(25,442)	–	(2,062)	(27,504)
At 31 December 2000	–	–	1,519,388	4,796,919	5,393,183	11,709,490
Net book value:						
At 31 December 2000	45,371,748	1,102,800,000	881,943	2,401,791	686,476	1,152,141,958
At 31 December 1999	45,371,748	1,077,800,000	879,098	3,119,988	991,207	1,128,162,041

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11. FIXED ASSETS (continued)

The Group's land and buildings were revalued individually at 31 December 2000 by DTZ Debenham Tie Leung Limited, an independent professionally qualified valuers, at an aggregate open market value of HK\$45,371,748 based on their existing use. A revaluation surplus of HK\$574,960 resulting from the above valuations have been credited to the land and building revaluation reserve.

Had the Group's land and buildings been carried at carrying amount on the date of transfer or at cost less accumulated depreciation, they would have been included in the financial statements at HK\$38,666,432 (1999: HK\$39,248,735).

The Group's land and buildings are held under the following lease terms:

	Hong Kong
	HK\$
At valuation:	
Long term leases	44,621,748
Medium term leases	750,000
	<u>45,371,748</u>

The Group's investment properties were revalued on 31 December 2000 by DTZ Debenham Tie Leung Limited, an independent professionally qualified valuers, at HK\$1,102,800,000 on an open market, existing use basis.

The Group's investment properties are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK\$	HK\$	HK\$
Long term leases	1,095,000,000	5,000,000	1,100,000,000
Medium term leases	2,800,000	–	2,800,000
	<u>1,097,800,000</u>	<u>5,000,000</u>	<u>1,102,800,000</u>

Notes to Financial Statements

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11. FIXED ASSETS (continued)

Certain of the Group's land and buildings and investment properties with a carrying value at the balance sheet date of approximately HK\$1,139,621,748 were pledged to secure certain bank loans granted to the Group.

Particulars of the Group's principal investment properties as at 31 December 2000 are as follows:

Location	Use
Magazine Gap Towers, 15 Magazine Gap Road, Hong Kong	Residential premises for rental
Magazine Heights, 17 Magazine Gap Road, Hong Kong	Residential premises for rental

12. PROPERTIES UNDER DEVELOPMENT

	2000 HK\$	Group 1999 HK\$
Balance at beginning of year	298,739,737	211,362,756
Additions	5,312,971	87,376,981
Disposal	(211,762,226)	–
Transfer to property held for sale – note 18	(92,290,482)	–
	–	298,739,737
Less: Property under development for sale classified as current assets	–	(86,977,511)
Property under development for long term investment purposes	–	211,762,226

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13. PROPERTY HELD FOR FUTURE DEVELOPMENT

	2000	Group 1999
	HK\$	HK\$
Balance at beginning of year	215,651,517	215,188,552
Additions	-	462,965
	215,651,517	215,651,517
Provision for permanent diminution in value	(135,651,517)	(135,651,517)
At 31 December	80,000,000	80,000,000

The property held for future development is situated in the PRC and is held under a long term lease.

Particulars of the property held for future development at the balance sheet date are as follows:

Location	Use	Site area sq.ft.	Percentage of interest attributable to the Group
Riverside Villa, Zhulinyuan, Tangxiazhen, Xinhui, Guangdong Province, the PRC	Commercial and residential	3,366,656	92%

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14. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$	HK\$
Unlisted shares, at cost	1,418,163,324	1,418,163,324
Due from a subsidiary	77,684,492	83,108,980
	1,495,847,816	1,501,272,304
Provision for permanent diminution in value	(20,500,000)	–
	1,475,347,816	1,501,272,304

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Winfoong Investment Limited	Hong Kong	HK\$285,931,246	–	100%	Investment holding and property development
Bossiney Limited	Hong Kong	Ordinary HK\$980 Non-voting deferred (1) HK\$20	–	100%	Property holding
Giant Yield Limited	Hong Kong	Ordinary HK\$98 Non-voting deferred (1) HK\$2	–	100%	Property holding

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14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hugoton Limited	Hong Kong	Ordinary HK\$980 Non-voting deferred (1) HK\$20	–	100%	Property holding
Vision Asset Management Limited (Formerly known as Sun Harvest Investments Limited)	Hong Kong	HK\$2	–	100%	Property holding
Allied Crown Limited	Hong Kong	HK\$2	–	100%	Property holding
Winfoong Holding Limited	Hong Kong	HK\$105,000,000	–	100%	Investment holding
Xinhui Tangquan Real Estate Company Limited*	The PRC	US\$7,365,356 (2)	–	92%	Property development

* audited by other auditors.

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

(1) These non-voting deferred shares are entitled to a fixed non-cumulative dividend at the rate of 5% per annum for any financial year of the company in respect of which the audited net profit of the company available for dividends exceeds HK\$1,000,000,000.

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14. INTERESTS IN SUBSIDIARIES (continued)

- (2) At the balance sheet date, this PRC subsidiary had outstanding capital contributions of US\$2.6 million which included the Group's share of US\$1.8 million and the PRC joint venture partner's share of US\$0.8 million. Notwithstanding the above, this PRC subsidiary has been able to renew its annual business license every year since its establishment in 1992. The Group is working closely with the PRC joint venture partner with the aim of amending certain terms of the joint venture contract. The directors believe that upon successful amendment of the joint venture contract, the PRC subsidiary will be able to meet its capital contribution requirement.

15. INTEREST IN AN ASSOCIATE

	Group	
	2000	1999
	HK\$	HK\$
Share of net assets	584,455,309	564,392,166
Market value of shares listed in the Republic of Singapore	147,239,191	209,297,529

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activity
			2000	1999	
Hong Fok Corporation Limited* ("HFC")	Corporate	Republic of Singapore	20.2%	20.2%	Investment holding

* audited by other auditors.

The financial statements of HFC are coterminous with those of the Group.

The shareholdings in the associate all comprise equity shares held through a wholly-owned subsidiary.

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15. INTEREST IN AN ASSOCIATE (continued)

Summary extracts of the consolidated operating results and financial position of the associate, which are based on its audited financial statements and adjusted for accounting standards generally accepted in Hong Kong, are as follows:

Consolidated operating results for the year ended 31 December:

	2000	1999
	HK\$	HK\$
Turnover	240,139,326	245,501,166
Loss before tax and minority interests	82,040,449	7,100,233
Loss after tax and minority interests	82,175,281	10,834,499

Consolidated financial position at 31 December:

	2000	1999
	HK\$	HK\$
Current assets	291,896,629	268,354,312
Long term assets	5,703,011,236	5,658,932,401
Total assets	5,994,907,865	5,927,286,713
Current liabilities	(323,721,348)	(151,053,613)
Long term liabilities	(2,162,575,281)	(2,330,149,184)
Total liabilities	(2,486,296,629)	(2,481,202,797)
Shareholders' equity	3,508,611,236	3,446,083,916

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16. OTHER LONG TERM ASSETS

	Group	
	2000	1999
	HK\$	HK\$
Loan receivable	8,730,167	8,616,184
Unlisted debentures, at cost	1,110,000	1,110,000
	9,840,167	9,726,184
Less: Loan receivable classified as current assets – note 21	(4,382,517)	–
	5,457,650	9,726,184

Included in loan receivable is an amount of HK\$8,500,000 (1999: HK\$8,500,000) which is secured by a second mortgage over an investment property sold by the Group during the year ended 31 December 1998. The loan is repayable by two equal instalments due on or before June 2001 and 2002.

17. INVESTMENTS

	Group	
	2000	1999
	HK\$	HK\$
Long term investments:		
Unlisted equity investments, at cost	5,845,125	–
Provision for diminution in values	(945,125)	–
	4,900,000	–
Short term investments:		
Listed equity investments, at market value:		
Hong Kong	250,800	–

The market value of the Group's short term investments at the date of approval of these financial statements was approximately HK\$189,240.

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18. PROPERTIES HELD FOR SALE

	2000	Group 1999
	HK\$	HK\$
At beginning of year	60,978,252	89,750,000
Transfer from property under development – note 12	92,290,482	–
Transfer to land and buildings	–	(37,822,243)
Write down to net realisable value	–	(150,000)
Reversal of write-down in prior years	–	9,200,495
At 31 December	<u>153,268,734</u>	<u>60,978,252</u>

Particulars of the principal properties held for sale at the balance sheet date are as follows:

Location	Use	Site area sq.ft.	Gross floor area sq.ft.	Percentage of interest attributable to the Group
38A Fort Street, North Point, Hong Kong	Residential	3,306	27,741	100%
Rooms 802-805, 9 Queen's Road Central, Hong Kong	Commercial	–	7,890	100%

Notes to Financial Statements

(31 December 2000)

19. CONSTRUCTION CONTRACTS

	Group	
	2000	1999
	HK\$	HK\$
Cost plus attributable profits less foreseeable losses	75,800,809	75,800,809
Progress payments received and receivable	(74,738,255)	(74,738,255)
Gross amount due from contract customers	1,062,554	1,062,554

20. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	Group			
	2000		1999	
	Balance	Percentage	Balance	Percentage
	HK\$		HK\$	
Current	638,813	95	831,490	12
1-3 months	26,381	4	71,245	1
4-6 months	6,550	1	24,249	–
7-12 months	–	–	–	–
Over 1 year	–	–	6,040,261	87
	671,744	100	6,967,245	100

The Group's trade receivables are normally invoiced with credit terms of 30 to 60 days of issuance. The balance aged over one year mainly related to trade receivables for construction contracts. The settlement period for such contracts tends to be longer than for other receivables because settlement is pending the issuance of the final completion certificate.

Notes to Financial Statements

(31 December 2000)

21. OTHER RECEIVABLES

	Group		Company	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Prepayments	839,285	862,724	74,680	70,912
Loan receivable – note 16	4,382,517	–	–	–
Deposits and other debtors	3,889,380	8,303,052	–	–
Retention money receivable	337,751	337,751	–	–
	<u>9,448,933</u>	<u>9,503,527</u>	<u>74,680</u>	<u>70,912</u>

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Cash and bank balances	2,336,212	2,356,258	44	33
Time deposits	3,018,913	3,208,513	2,805,440	–
	<u>5,355,125</u>	<u>5,564,771</u>	<u>2,805,484</u>	<u>33</u>

23. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Group			
	2000		1999	
	Balance	Percentage	Balance	Percentage
	HK\$		HK\$	
Current	234,462	9	451,303	14
1-3 months	–	–	–	–
4-6 months	–	–	–	–
7-12 months	–	–	–	–
Over 1 year	2,325,540	91	2,731,950	86
	<u>2,560,002</u>	<u>100</u>	<u>3,183,253</u>	<u>100</u>

Notes to Financial Statements

(31 December 2000)

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Accruals	7,223,060	18,694,460	276,779	279,677
Deposits received	6,209,344	6,808,907	–	–
Retention money payable	8,423,836	9,013,253	–	–
Other liabilities	3,180,397	2,165,539	–	–
	25,036,637	36,682,159	276,779	279,677

25. INTEREST-BEARING BANK BORROWINGS

	Group	
	2000	1999
	HK\$	HK\$
Bank overdrafts, unsecured	12,614,710	12,422,811
Bank loans, secured	466,000,000	515,833,000
Less: Portion classified as current liabilities	(48,100,000)	(60,000,000)
Long term portion	417,900,000	455,833,000
Bank loans and overdrafts are repayable:		
Within one year	60,714,710	72,422,811
In the second year	260,640,000	20,000,000
In the third to fifth years, inclusive	40,680,000	435,833,000
Beyond five years	116,580,000	–
	478,614,710	528,255,811

The Group's bank overdrafts are guaranteed by Hong Fok Corporation Limited, a substantial shareholder of the Company.

Notes to Financial Statements

(31 December 2000)

25. INTEREST-BEARING BANK BORROWINGS (continued)

The Group's bank loans are secured by:

- (i) fixed charges over certain of the Group's land and buildings, investment properties, and properties held for sale situated in Hong Kong which have carrying values at the balance sheet date of HK\$44,621,748, HK\$1,095,000,000 and HK\$152,668,734, respectively;
- (ii) assignment of sale and rental proceeds of the land and buildings, investment properties and a property held for sale situated in Hong Kong;
- (iii) obligation of Hong Fok Corporation Limited to obtain prior written consent from a bank for transfer or change in ownership of the Company;
- (iv) corporate guarantee given by the Company; and
- (v) floating charges over the assets of Hugoton Limited, Vision Asset Management Limited, wholly-owned subsidiaries of the Group.

26. SHARE CAPITAL

Shares

	Company	
	2000	1999
	HK\$	HK\$
Authorised:		
2,000,000,000 ordinary shares of HK\$0.05 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
684,416,993 (1999: 690,712,993) ordinary shares of HK\$0.05 each	<u>34,220,850</u>	<u>34,535,650</u>

During the year, the Company repurchased on The Stock Exchange of Hong Kong Limited a total of 6,296,000 of its shares at a total consideration of HK\$2,163,436, all of which were cancelled accordingly.

The premium of HK\$1,848,636 on the shares repurchased, being the difference between the total cost of HK\$2,163,436 and the aggregate amount of HK\$314,800 being the nominal value of the 6,296,000 shares repurchased, was deducted from the share premium account of the Company.

Notes to Financial Statements

(31 December 2000)

26. SHARE CAPITAL (continued)

The above repurchases were made for the purpose of enhancing the consolidated net asset value and earnings per share of the Company.

Share options

On 14 October 1996, a share option scheme (the "Scheme") was adopted by the shareholders of the Company. Under the Scheme, the directors may, at their discretion, invite employees of the Company and its subsidiaries, including directors, to take up options to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of grant, or the nominal value of the Company's shares, whichever is the higher amount. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued capital of the Company, excluding any shares issued upon the exercise of options, from time to time. An option may be exercised under the Scheme at any time during the period from 14 October 1996 to 10 July 2004.

Details of the share options granted pursuant to the Scheme are as follows:

Date of offer of grant	Exercise price per share	Exercise period	Number of options				At end of year
			At beginning of year	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	
14 October 1997	HK\$0.925	14 October 1997 to 13 October 2000	2,000,000	-	-	(2,000,000)	-
3 January 2000	HK\$0.268	3 January 2000 to 10 July 2004	-	60,000,000	-	-	60,000,000
			<u>2,000,000</u>	<u>60,000,000</u>	<u>-</u>	<u>(2,000,000)</u>	<u>60,000,000</u>

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 60,000,000 additional ordinary shares for gross proceeds of HK\$16,080,000.

Notes to Financial Statements

(31 December 2000)

27. RESERVES

Group

	Share premium	Contributed surplus	Land and buildings revaluation reserve	Investment property revaluation reserve	Capital reserve	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 1999	86,982,670	618,107,853	-	366,966,490	465,371,307	(130,029,610)	2,003,960	1,409,402,670
Surplus on revaluation	-	-	6,799,505	82,050,000	-	-	-	88,849,505
Arising on disposal of subsidiaries	-	-	-	-	6,502,774	-	-	6,502,774
Goodwill arising on acquisition of a subsidiary	-	-	-	-	(11,386)	-	-	(11,386)
Exchange realignment	-	-	-	-	-	111,196	-	111,196
Net loss for the year	-	-	-	-	-	-	(31,443,219)	(31,443,219)
Share of movements in reserves of an associate	-	-	-	74,232,387	(456,586)	(1,180,151)	-	72,595,650
At 31 December 1999 and beginning of year	86,982,670	618,107,853	6,799,505	523,248,877	471,406,109	(131,098,565)	(29,439,259)	1,546,007,190
Premium on repurchase of own shares	(1,848,636)	-	-	-	-	-	-	(1,848,636)
Surplus on revaluation	-	-	574,960	24,411,785	-	-	-	24,986,745
Exchange realignment	-	-	-	-	-	621,381	-	621,381
Net loss for the year	-	-	-	-	-	-	(151,606,595)	(151,606,595)
Share of movements in reserves of an associate	-	-	-	47,375,627	889,407	(22,795,596)	-	25,469,438
At 31 December 2000	85,134,034	618,107,853	7,374,465	595,036,289	472,295,516	(153,272,780)	(181,045,854)	1,443,629,523

Notes to Financial Statements

(31 December 2000)

27. RESERVES (continued)

Group

	Share premium	Contributed surplus	Land and buildings revaluation reserve	Investment property revaluation reserve	Capital reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Reserves retained by:								
Company and subsidiaries	85,134,034	618,107,853	7,374,465	788,050,908	468,187,032	(139,947,609)	(160,838,142)	1,666,068,541
Associate	-	-	-	(193,014,619)	4,108,484	(13,325,171)	(20,207,712)	(222,439,018)
At 31 December 2000	<u>85,134,034</u>	<u>618,107,853</u>	<u>7,374,465</u>	<u>595,036,289</u>	<u>472,295,516</u>	<u>(153,272,780)</u>	<u>(181,045,854)</u>	<u>1,443,629,523</u>
Company and subsidiaries	86,982,670	618,107,853	6,799,505	763,639,123	468,187,032	(140,568,990)	(13,622,163)	1,789,525,030
Associate	-	-	-	(240,390,246)	3,219,077	9,470,425	(15,817,096)	(243,517,840)
At 31 December 1999	<u>86,982,670</u>	<u>618,107,853</u>	<u>6,799,505</u>	<u>523,248,877</u>	<u>471,406,109</u>	<u>(131,098,565)</u>	<u>(29,439,259)</u>	<u>1,546,007,190</u>

The contributed surplus of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

Notes to Financial Statements

(31 December 2000)

27. RESERVES (continued)

Company

	Share premium HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 1999	86,982,670	1,386,580,996	(63,965,658)	1,409,598,008
Net profit for the year	—	—	56,929,914	56,929,914
At 31 December 1999 and beginning of year	86,982,670	1,386,580,996	(7,035,744)	1,466,527,922
Premium on repurchase of own shares	(1,848,636)	—	—	(1,848,636)
Net loss for the year	—	—	(21,172,028)	(21,172,028)
At 31 December 2000	<u>85,134,034</u>	<u>1,386,580,996</u>	<u>(28,207,772)</u>	<u>1,443,507,258</u>

The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

Notes to Financial Statements

(31 December 2000)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000	1999
	HK\$	HK\$
Profit/(loss) from operating activities	(108,974,864)	10,196,803
Reversal of provision for diminution in value of properties held for sale	-	(9,050,495)
Provision for diminution in value of property held for future development	-	10,462,965
Provision for diminution in value of long term unlisted investments	945,125	-
Provision for diminution in value of listed investments	1,490,306	-
Interest income	(792,840)	(4,014,538)
Depreciation	2,118,842	1,978,884
Gain on disposal of listed investments	(196,139)	(246,407)
Loss/(gain) on disposal of fixed assets	(421,141)	146,084
Deficit on revaluation of land and buildings	-	227,296
Decrease/(increase) in properties under development	211,762,226	(86,977,511)
Increase in properties held for sale	(2,366,294)	-
Decrease in inventories	8,653	40,737
Increase in construction contracts	-	(404,298)
Decrease in trade receivables	6,295,501	7,752,728
Decrease in prepayments	23,439	46,792
Decrease/(increase) in deposits and other debtors	(86,328)	1,496,691
Decrease in retention money receivable	-	1,780,914
Increase/(decrease) in trade payables	(623,251)	956,892
Decrease in accruals	(11,471,400)	(7,894,410)
Decrease in deposits received	(599,563)	(1,029,228)
Decrease in retention money payable	(589,417)	(5,048,783)
Increase in other liabilities	1,014,858	3,935,107
Decrease in amounts due to related companies	-	(30,130)
Net cash inflow/(outflow) from operating activities	97,537,713	(75,673,907)

Notes to Financial Statements

(31 December 2000)

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

(b) Summary of the effects of disposal of subsidiaries:

	1999
	HK\$
Net assets disposed of:	
Cash and bank balances	166
Prepayments	14,392
Deposits and other debtors	580,801
Accounts payable and accrued liabilities	(833)
	<hr/>
	594,526
Gain on disposal	2,417,258
Capital reserve realised	6,502,774
	<hr/>
	9,514,558
	<hr/> <hr/>
Satisfied by:	
Cash consideration receivable	9,514,558
	<hr/> <hr/>

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

	1999
	HK\$
Cash consideration receivable	9,514,558
Less: Outstanding receivable as at 31 December	(4,500,000)
	<hr/>
	5,014,558
Cash and bank balances	(166)
	<hr/>
	5,014,392
	<hr/> <hr/>

The subsidiaries disposed of had no significant impact on the Group's cash flows in respect of net operating cash flows, net returns on investments and servicing of finance, tax, and investing and financing activities in 1999.

Notes to Financial Statements

(31 December 2000)

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

(c) Acquisition of a subsidiary

	1999
	HK\$
Net assets acquired:	
Minority interests	(11,386)
Goodwill on acquisition	11,386
	<u> </u>
	<u> </u>
	<u> </u>

The subsidiary acquired had no impact on the Group's cash flows in respect of net operating cash flows, net returns on investments and servicing of finance, taxation, and investing and financing activities in 1999.

(d) Analysis of changes in financing during the year.

	Convertible loan HK\$	Share capital, share premium and contributed surplus HK\$	Bank loans, secured HK\$	Minority interests HK\$
Balance at 1 January 1999	49,275,000	739,626,173	495,203,000	(4,346,976)
Cash inflow/(outflow) from financing, net	(49,275,000)	–	20,630,000	–
Acquisition of a subsidiary	–	–	–	11,386
Foreign exchange realignment	–	–	–	26,614
Share of loss for the year	–	–	–	(836,012)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December 1999 and beginning of year	–	739,626,173	515,833,000	(5,144,988)
Cash outflow from financing, net	–	(2,163,436)	(49,833,000)	–
Foreign exchange realignment	–	–	–	317,520
Share of loss for the year	–	–	–	1,803,916
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December 2000	<u> </u>	<u>737,462,737</u>	<u>466,000,000</u>	<u>(3,023,552)</u>

Notes to Financial Statements

(31 December 2000)

29. COMMITMENTS

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

	2000	Group 1999
	HK\$	HK\$
Capital commitments:		
Contracted for	2,734,947	–
Annual commitments payable in the following year under non-cancellable operating leases of land and buildings expiring in the second to fifth years, inclusive	190,540	181,358

30. CONTINGENT LIABILITIES

- (a) At the balance sheet date, the Company had given unconditional guarantees to banks to secure loan facilities granted to subsidiaries to the extent of approximately HK\$654 million (1999: HK\$654 million). The extent of such facilities utilised by the subsidiaries at the balance sheet date amounted to approximately HK\$466 million (1999: HK\$515.8 million).
- (b) At the balance sheet date, the Group had given corporate guarantees to banks for issuing letters of indemnity to a third party in respect of contracts undertaken by certain subsidiaries, and to indemnify the repayment of certain mortgage loans amounting to approximately HK\$30 million (1999: HK\$30 million).

Notes to Financial Statements

(31 December 2000)

31. RELATED PARTY TRANSACTION

During the year, Hong Fok Corporation Limited, a substantial shareholder of the Company, provided guarantee to banks to secure bank overdraft facilities of a subsidiary totalling HK\$12,614,710 as at the balance sheet date (1999: HK\$12,422,811) at nil consideration.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 29 March 2001.