

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation and presentation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.

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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Goodwill or capital reserve arising on consolidation represents the excess or deficit of cost of investment over the fair value of the net assets of subsidiaries at the dates of acquisition. Goodwill or capital reserve is respectively written off against or credited to reserves in the year in which it arises.

(c) Revenue recognition

Revenue from sale of properties held under development for sale is recognised on the basis of percentage of completion.

Revenue from sale of investment properties is recognised when a legally binding contract of sales has been executed.

Rental income is recognised on a straight-line basis over the period of the leases.

Estate management fees are recognised on an accrual basis.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividend income is recognised when the right to receive payment is established.

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1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Provident fund scheme arrangement

The Group operates a defined contribution provident fund scheme which is available to certain employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group's contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Starting from 1st December, 2000, a mandatory provident fund scheme is available to all Hong Kong employees.

(e) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held by the Group for long term and significant influence is exercised in its management. Investments in associated companies are stated in the consolidated balance sheet at the Group's share of net assets after revaluation of the underlying assets of the associated companies, where appropriate, in accordance with the Group's accounting policy. Results of associated companies are accounted for by the Group using the equity method of accounting. Surplus on revaluation of the underlying assets of associated companies are credited directly to revaluation reserve. Deficits on revaluation are offset against surplus on previous valuation in respect of the assets of the same associated company and thereafter debited to operating profit. Any subsequent surpluses are credited to operating profit up to the amount previously debited.

Where audited financial statements of associated companies are not co-terminous with those of the Group, the share of the results is arrived at from the latest audited financial statements available and unaudited management financial statements made up to 31st December, as adjusted for the revaluation of the underlying assets of associated companies.

(f) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length. Investment properties held on lease with unexpired periods of greater than 20 years are stated at annual professional valuation based on the open market value at balance sheet date. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

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

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Fixed assets (Cont'd)

(ii) Properties held for development

Properties held for development for long term purposes are classified under fixed assets and are stated at cost to the Group less provision for permanent diminution in value. These properties will be reclassified as investment properties or other properties as the case may be upon completion of the development.

(iii) Leasehold land and buildings

Leasehold land and buildings and other fixed assets are stated at cost less accumulated depreciation.

(iv) Depreciation

No depreciation is provided on investment properties with an unexpired lease term of over 20 years. When the unexpired lease term is 20 years or less, depreciation is provided on the carrying value over the remaining term of the lease.

No depreciation is provided on properties held for development for long term purposes.

Depreciation of leasehold land and buildings is calculated over the unexpired period of the lease or their expected useful lives to the Group whichever is shorter.

Depreciation of other fixed assets is calculated to write off their costs on a straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Office equipment	20%
Furniture and fixtures	20% - 33 $\frac{1}{3}$ %
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(v) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net proceeds from disposal and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Properties held under development for sale

Properties held under development for sale are stated at cost plus attributable profit taken to date, less provision for foreseeable losses and progress payments received. Cost includes the cost of land use rights and all expenditure incurred on land acquisition, development, resettlement, infrastructural and communal work.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(g) Properties held under development for sale *(Cont'd)*

When properties held under development are sold in advance of completion of all the development work, and in the opinion of the Directors there is reasonable certainty as to the outcome of the corresponding development project, the total estimated profit is apportioned over the entire life of the project to reflect the progress of development.

The profit is computed for each period as a proportion of the total estimated profit to completion, with the proportion used being the ratio of cost incurred as at the balance sheet date to the total estimated cost to completion, but limited to the total amount of progress payments received and subject to due allowance for contingencies.

(h) Properties held for sale

Properties held for sale are included in current assets and stated at the lower of cost and estimated net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(i) Operating leases

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

(j) Borrowing costs

Interest and related finance charges are generally expensed as incurred. With respect to interest incurred on borrowings attributable to financing the acquisition and development of qualifying assets, the expenses are capitalised as part of the costs of those assets if, in the opinion of the Directors, the qualifying assets concerned will generate adequate future economic benefit to the Group.

(k) Long term investments

The Group's interests in companies, other than subsidiaries and associated companies, held on a long term basis are stated at cost and dividend income is recognised when it is declared. Provisions are made for any diminution in value which, in the opinion of the Directors, are considered to be permanent.

(l) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet is stated net of such provision.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the financial statements by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling as at the balance sheet date. Exchange differences arising are included in operating results.

The financial statements of overseas subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling as at the balance sheet date. Exchange differences arising are taken directly to the exchange difference reserve.

2 REVENUE AND TURNOVER

The Company is an investment holding company and the principal activities of the Group are property investment and development, estate management and investment holding. Revenues and turnover recognised during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Sale of properties held under development for sale	457,732	14,812
Sale of investment properties	–	14,900
Gross rental income		
– investment properties	25,753	26,229
– other properties	4,427	15,734
Estate management fees	14,017	16,963
Interest income	16,656	30,072
Dividend income	2,246	373
Total revenues and turnover	520,831	119,083

NOTES TO THE FINANCIAL STATEMENTS

2 REVENUE AND TURNOVER (Cont'd)

An analysis of the Group's turnover and contribution to the trading results for the year ended 31st December, 2000 is set out below:

	2000		1999	
	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong				
Rental, estate management and other service income	39,770	8,080	43,192	17,963
Investment income and other income	18,902	6,016	30,445	20,105
Property sales	—	—	14,900	771
People's Republic of China (the "PRC")				
Property sales and rental	462,159	(11,958)	30,546	(88,595)
	520,831	2,138	119,083	(49,756)

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3 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	2000 HK\$'000	1999 HK\$'000
Crediting		
Gross rental income	30,180	41,963
Less: Depreciation	—	(15,839)
Outgoings	(2,760)	(3,704)
Net rental income	27,420	22,420
Exchange reserve realised upon disposal of a subsidiary	—	6,854
Charging		
Cost of properties sold	451,074	41,384
Staff costs	20,725	19,262
Depreciation of fixed assets	2,605	2,882
Loss on disposal of fixed assets	624	472
Operating leases in respect of office premises and staff quarters	10,764	9,592
Retirement benefits costs (note 8)	232	294
Auditors' remuneration	751	1,038
	<u> </u>	<u> </u>

4 FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on bank loans and overdrafts		
Wholly repayable within five years	78,624	65,480
Not wholly repayable within five years	10,058	—
Interest on other loans wholly repayable within five years	432	142
Other incidental borrowing costs	43,303	1,167
Total borrowing costs incurred	<u>132,417</u>	<u>66,789</u>
Less: Amount capitalised in properties held under development for sale:		
Interest capitalised	(64,115)	(40,623)
Incidental borrowing costs capitalised	(40,583)	(1,140)
Total borrowing costs capitalised	<u>(104,698)</u>	<u>(41,763)</u>
	<u>27,719</u>	<u>25,026</u>

The capitalisation rate applied to funds borrowed generally and used for property development projects in the PRC is between 7.05% and 7.7% per annum.

NOTES TO THE FINANCIAL STATEMENTS

5 TAXATION

(a) The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	2000 HK\$'000	1999 HK\$'000
Hong Kong profits tax	(31)	(1,200)
Share of taxation attributable to associated companies	(169)	1,255
	<u>(200)</u>	<u>55</u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. No provision has been made for PRC income tax as there was no estimated assessable profit derived from subsidiaries in the PRC (1999: HK\$Nil).

(b) There was no material unprovided deferred taxation as at 31st December, 2000 (1999: Nil).

6 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$1,534,000 (1999: profit of HK\$20,672,000).

7 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$28,272,000 (1999: HK\$65,536,000) and 1,135,606,132 (1999: 1,135,606,132) ordinary shares in issue during the year.

The exercise of the share options granted under the executive share option scheme of the Company would not have a dilutive effect on the loss per share for the year ended 31st December, 2000.

NOTES TO THE FINANCIAL STATEMENTS

8 RETIREMENT BENEFIT COSTS

The Group contributes to a defined contribution provident scheme (the "Scheme") which is available to all employees in Hong Kong and certain employees in the PRC. Contributions to the Scheme by the Group and the employees are calculated as a percentage of the employees' relevant income.

The Group's contributions are reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$58,000 (1999: HK\$63,000) were utilised during the year, the remaining forfeited contributions of HK\$120,000 (1999: HK\$Nil) at the year end is allowable to reduce future contributions.

Starting from 1st December, 2000, a mandatory provident fund scheme (the "MPF") is available to all Hong Kong employees.

The cost charged to the profit and loss account represents contributions payable by the Group to the Scheme and MPF.

Contributions totalling HK\$232,000 (1999: HK\$294,000) were paid during the year.

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees	860	768
Basic salaries, housing allowances, other allowances and benefits in kind	5,222	5,279
Discretionary bonuses	463	363
Pensions	2	–
	6,547	6,410

The fees payable to Independent non-executive Directors of the Company during the year are HK\$440,000 (1999: HK\$452,000).

The emoluments of the Directors fell within the following bands:

Emoluments bands	Number of Directors	
	2000	1999
HK\$Nil – HK\$1,000,000	4	4
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$3,000,001 – HK\$3,500,000	1	1

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9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

- (b) The five individuals whose emoluments were the highest in the Group for the year include two (1999: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (1999: three) individuals during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,513	2,441
Discretionary bonuses	208	217
Pensions	58	60
	<u>2,779</u>	<u>2,718</u>

The emoluments of these highest paid individuals fell within the following bands:

Emoluments bands	Number of individual	
	2000	1999
HK\$Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>1</u>