

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 1. ORGANISATION

Shanghai Real Estate Limited (formerly known as Trans-Ocean Investment and Technology Limited) ("the Company") was incorporated in Bermuda with limited liability on 11th August, 1999 as an exempted company under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "SEHK"), the Company became the ultimate holding company of the other companies comprising the Group on 12th November, 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30th November, 1999. The shares of the Company were listed on the SEHK on 10th December, 1999. On 6th June, 2001, Shanghai Real Estate Limited, a company incorporated in Hong Kong, was formed by the Group. On 18th January, 2002, the Company swapped its name with the newly formed company and is now known as Shanghai Real Estate Limited.

As of 31st December, 2001, the consolidated financial statements of the Group include the financial statements of the Company and the following subsidiaries and associated companies:

| Name   | Place and date of incorporation or establishment     | Percentage of equity interest attributable to the Group |       | Issued and paid-up capital                  | Authorised share capital | Principal activities                    |
|--|--|---|-------|---|--------------------------|---|
|  |  | 2001  | 2000  |   |                          |   |
| Subsidiaries:  |  |   |       |   |                          |   |
| Shanghai Xin Dong Industry Co., Ltd. ("Xin Dong")  | People's Republic of China ("PRC")<br>28th May, 1993 | 98%   | 98%   | United States Dollars ("US\$")<br>3,457,729 | US\$3,457,729            | Property leasing and real estate agency |
| Shanghai Xin Shi Industry Co., Ltd. ("Xin Shi")  | PRC<br>10th January, 1995                            | 49%   | 49%   | Renminbi ("RMB")<br>10,000,000              | RMB10,000,000            | Property leasing                        |
| Shanghai Cosco-Xin Dong Real Estate Development Co., Ltd. ("Cosco-Xin Dong")             | PRC<br>16th September, 1996                          | 49%   | 49%   | RMB50,000,000                               | RMB50,000,000            | Property development                    |
| Shanghai Well Real Estate Co., Ltd. ("Well Real Estate")                                 | PRC<br>6th May, 1997                                 | 98%   | 98%   | US\$10,000,000                              | US\$10,000,000           | Property development                    |
| Trans Ocean (Shanghai) Real Estate & Construction Co., Ltd. ("Trans Ocean Construction") | PRC<br>24th December, 1997                           | 97.5%   | 97.5% | US\$9,800,000                               | US\$9,800,000            | Property development                    |

## NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 1. ORGANISATION (Continued)

| Name   | Place and date of incorporation or establishment    | Percentage of equity interest attributable to the Group |      | Issued and paid-up capital | Authorised share capital | Principal activities                  |
|--|---|---|------|----------------------------|--------------------------|---------------------------------------|
|  |   | 2001  | 2000 |                            |                          |                                       |
| Tranceocean (Shanghai) Real Estate Development Co., Ltd. ("Tranceocean Development")           | PRC<br>29th September, 1998                         | 95%   | 95%  | US\$4,900,000              | US\$4,900,000            | Property development                  |
| Sinopower Investment Limited   | British Virgin Islands ("BVI")<br>1st October, 1998 | 100%  | 100% | US\$52                     | US\$50,000               | Investment holding                    |
| Powerland Investment Limited   | BVI<br>31st May, 1999                               | 100%  | 100% | US\$11                     | US\$50,000               | Investment holding                    |
| Dragon Time Investment Limited   | BVI<br>2nd July, 1999                               | 100%  | 100% | US\$11                     | US\$50,000               | Investment holding                    |
| Eastin Resources Limited   | BVI<br>21st July, 1999                              | 100%  | 100% | US\$11                     | US\$50,000               | Investment holding                    |
| Wellwide Limited   | BVI<br>21st July, 1999                              | 100%  | 100% | US\$21                     | US\$50,000               | Investment holding                    |
| Wingo Investment Limited   | BVI<br>21st July, 1999                              | 100%  | 100% | US\$1                      | US\$50,000               | Investment holding                    |
| Shanghai Trans-Ocean Housing Technology Co., Ltd. ("Housing Technology")                       | PRC,<br>4th August, 1999                            | 95%   | 95%  | US\$10,000,000             | US\$10,000,000           | Development of technology for housing |
| Super-power.com Limited  | BVI<br>4th January, 2000                            | 100%  | 100% | US\$1                      | US\$50,000               | Investment holding                    |
| Trans-Ocean Investment and Technology Limited (formerly known as Shanghai Real Estate Limited) | Hong Kong<br>6th June, 2001                         | 100%  | —    | HK\$2                      | HK\$2                    | Dormant                               |

## NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 1. ORGANISATION (Continued)

| Name   | Place and date of incorporation or establishment | Percentage of equity interest attributable to the Group |        | Issued and paid-up capital | Authorised share capital | Principal activities   |
|--|--|---|--------|----------------------------|--------------------------|--|
|  |  | 2001  | 2000   |                            |                          |  |
| Associated companies:  |  |   |        |                            |                          |  |
| Shanghai Trans-Ocean Property Management Co., Ltd. ("Trans-Ocean Property Management")                           | PRC<br>1st September, 1995                       | 47%   | 47%    | RMB500,000                 | RMB500,000               | Property management  |
| Shanghai Telecom Broadband Networking Co., Ltd.  | PRC<br>24th October, 2000                        | 38%   | 38%    | RMB30,000,000              | RMB30,000,000            | Development and sales of netware and construction of broad band fibre projects   |
| Shanghai No.1 Hardware Trans-Ocean Chain Co., Ltd. (formerly known as "Shanghai Hardware Chain Store Co., Ltd.") | PRC<br>1st February, 2000                        | 48.25%  | 48.25% | RMB10,000,000              | RMB10,000,000            | Sales of hardware and communication equipment                                    |
| Shanghai Orda Opto-electronics Science and Technology Co., Ltd.  | PRC<br>23rd March, 2000                          | 23.52%  | 23.52% | RMB11,000,000              | RMB11,000,000            | Development and sales of photo electron products, computer hardware and software |

## NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of presentation

The financial statements are prepared under the historical cost convention as modified by the revaluation and valuation of investment properties, and certain investments in securities, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

#### (b) Adoption of Statements of Standard Accounting Practice ("SSAPs")

In the current year, the Group adopted, for the first time, SSAP9 (revised) - "Events after the Balance Sheet Date" issued by the Hong Kong Society of Accountants. The revised accounting policy, which requires dividends declared after the balance sheet date to be accounted for in the period in which they are declared, has been accounted for retrospectively. The accompanying consolidated financial statements for 2000 have been restated to conform to the revised policy.

The effects on the financial statements from the adoption of the accounting standard are tabulated below:

|                 | 2001                   |                                      | 2000                   |                                      |
|-----------------|------------------------|--------------------------------------|------------------------|--------------------------------------|
|                 | Profit from operations | Opening Balance of Retained Earnings | Profit from operations | Opening Balance of Retained Earnings |
| SSAP9 (revised) | <u>—</u>               | <u>12,000,000</u>                    | <u>—</u>               | <u>17,000,000</u>                    |

Unless otherwise stated, the 2000 comparative figures presented herein have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new accounting standard.

#### (c) Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.



## NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (*Continued*)

#### (c) Basis of consolidation (*Continued*)

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are included in the income statement to the extent of dividends received and receivable.

#### (d) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance 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 fixed assets, the expenditure is capitalised as an additional cost of the fixed assets.

Depreciation is provided to write off the cost net of estimated residual value, using the straight-line method over the estimated useful lives of each asset. The estimated useful lives are as follows:

|  |  |
|--|--|
| Buildings                                | 30 years                               |
| Leasehold improvements                   | over the remaining period of the lease |
| Furniture, fixtures and office equipment | 5 years                                |
| Motor vehicles                           | 5 years                                |

The useful lives of assets and depreciation methods are reviewed periodically.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

#### (e) Construction-in-progress

Construction-in-progress is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

#### (f) Investment properties

Investment properties are interests in buildings in respect of which construction work and development have been completed and which are held for their long-term investment potential.

Investment properties are included in the balance sheet at their open market value determined at intervals of not more than three years by independent valuers.

## NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (*Continued*)

#### (f) Investment properties (*Continued*)

Increases in the carrying amount of investment properties are credited to the revaluation reserve in shareholders' equity. Decreases are first offset against increases on earlier valuations in the revaluation reserve, if the total of this reserve is insufficient to cover a deduction on a portfolio basis, the excess is charged to the income statement. Increases on revaluations directly related to a previous decrease in carrying amount for the property that was recognized as an expense are credited to income to the extent that it offsets the previously recorded decrease on a portfolio basis.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to the income statement as part of the profit or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired term is 20 years or less, in which case, depreciation is provided on their carrying value over the unexpired lease term.

#### (g) Subsidiaries

A subsidiary is a company in which the Company (i) holds, directly or indirectly, more than 50% of its issued voting share capital or equity interest as a long-term investment, or (ii) has the power to cast the majority of votes at meetings of the management committee or the board of directors.

In the Company's financial statements, investments in subsidiaries are carried at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the income statement to the extent of dividends declared by the subsidiaries.

#### (h) Associated companies

An associated company is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investments in associated companies are accounted for using the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associated companies, distributions received from the associated companies and other necessary alterations in the Group's proportionate interest in the associated companies arising from changes in the equity of the associated companies that have not been included in the income statement and less any accumulated impairment losses. The Group's share of post-acquisition results of associated companies is included in the consolidated income statement.





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## NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (*Continued*)

#### (h) Associated companies (*Continued*)

Goodwill arising on the acquisition of an associated company, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is amortised on a straight line basis to the consolidated income statement over twenty years. Where, in the opinion of the directors, there is an impairment in value of an associated company, or the market value has fallen below the carrying value over a sustained period, a provision is made for such impairment in value.

#### (i) Trading securities

Securities that are held for the purpose of generating a profit from short-term fluctuations in price or dealer's margin are classified as trading securities and are included in the balance sheet at their fair values. Any changes in the fair values of trading securities are recognised in the income statement when they arise.

Upon disposal of the trading securities, any profit and loss is accounted for in the income statement.

#### (j) Properties held or under development for sale

Properties held or under development for sale, the pre-sale of which has not commenced, are included in current assets at the lower of cost and net realisable value. Properties held or under development for sale, the pre-sale of which has commenced, are included in current assets or current liabilities at cost plus attributable profits less sale instalments and deposits received and receivable and any foreseeable losses.

Cost of properties in the course of development comprises land cost, fees for land use rights and other direct costs attributable to such properties.

Net realisable value is determined by reference to sales proceeds of properties sold in the ordinary course of business less all estimated marketing and selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

No depreciation is provided on properties held or under development for sale.

#### (k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (l) Trade and other receivables

Trade and other receivables are stated at their cost, after provision for doubtful accounts.

#### (m) Cash and cash equivalents

Cash represents cash on hand and deposits with any banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

#### (n) 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. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

#### (o) Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

#### (p) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

##### (i) Pre-sale of properties under development for sale

Pre-sale of properties under development for sale is recognised based on the percentage of completion method. The attributable profit on the pre-sold portion of the properties under development for sale is recognised over the course of the development after taking into account further construction costs which are required to be incurred in order to complete the project and after making suitable allowances for contingencies. The attributable profit on the pre-sold portion of a particular project is calculated by reference, to the lower of the percentage which results from: (i) the proportion of the total construction costs incurred to the total estimated construction costs to complete the projects; or (ii) the proportion of cash received over the total sale consideration.





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## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (*Continued*)

(ii) Sale of goods

Sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

(iii) Rendering of services

Service income is recognised as services are rendered.

(iv) Rental income

Rental income is recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the earning process contained in the lease.

(v) Interest income

Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(vi) Dividend income

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

(q) **Taxation**

The Company and its subsidiaries provide for taxation on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purpose.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, to the extent that it is probable that a liability or asset will crystallize.

(r) **Foreign currency translation**

(i) The Company and its subsidiaries maintain their books and records either in Hong Kong dollars or in Renminbi ("respective functional currencies").

(ii) Foreign currency transactions are translated into the respective functional currencies at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet dates are translated into the respective functional currencies at rates of exchange in effect at the balance sheet dates. Exchange differences are dealt with in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (r) Foreign currency translation *(Continued)*

- (iii) The financial statements of overseas subsidiaries are translated into Hong Kong dollars using the closing rate method. Under this method, all amounts other than equity are translated at the exchange rate prevailing at the balance sheet dates. Exchange differences resulting from translating the financial statements into Hong Kong dollars are recorded in the exchange translation reserve account and taken directly to equity.

#### (s) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of an asset, that necessarily takes a substantial period of time to prepare for its intended use in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

#### (t) Impairment of assets

Fixed assets, investment properties and investments in subsidiaries and associated companies are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of fixed assets and investments in subsidiaries and associated companies carried at cost and treated as a revaluation decrease for investment properties that are carried at revalued amounts to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same properties. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase.





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## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (*Continued*)

#### (u) Segments

Business segments: for management purposes the Group conducts the majority of its business activities in the PRC. Its operations are organised under three principal business segments: property development, property leasing and sale of hi-tech products and services. Financial information on business segments is presented in Note 3.

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfers between business segments. Such transfers are accounted for at a price determined on an arm-length basis and are eliminated in consolidation.

#### (v) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

#### (w) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

#### (x) Related parties

Related parties are those parties, which have 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.

#### (y) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. BUSINESS SEGMENT INFORMATION

The Group conducts the majority of its business activities in three areas, property development, property leasing and sale of hi-tech products and services. An analysis by business segment is as follows:

|   | 2001                    |                     |                   |                      |
|---|-------------------------|---------------------|-------------------|----------------------|
|   | Property<br>development | Property<br>leasing | High-tech         | Total                |
| <b>Revenue</b>  |                         |                     |                   |                      |
| Sales to external customers                           | <u>496,469,708</u>      | <u>1,425,891</u>    | <u>88,114,837</u> | <u>586,010,436</u>   |
| <b>Results</b>  |                         |                     |                   |                      |
| Segment profit (loss)                                 | <u>114,025,842</u>      | <u>(5,350,832)</u>  | <u>23,451,644</u> | 132,126,654          |
| Unallocated corporate expenses                        |                         |                     |                   | (12,107,893)         |
| Operating profit                                      |                         |                     |                   | 120,018,761          |
| Interest expense                                      |                         |                     |                   | (1,879,774)          |
| Interest income                                       |                         |                     |                   | 1,223,566            |
| Share of net (loss) profit of<br>associated companies | (582,782)               | (1,926,781)         | 1,094,857         | (1,414,706)          |
| Income tax expense                                    | (37,434,566)            | –                   | –                 | (37,434,566)         |
| Minority interests                                    | (2,370,299)             | 2,784,221           | (1,217,135)       | (803,213)            |
| Net profit  |                         |                     |                   | <u>79,710,068</u>    |
| <b>Other information</b>                              |                         |                     |                   |                      |
| Segment assets  | 868,897,046             | 61,295,415          | 112,144,581       | 1,042,337,042        |
| Investments in associated<br>companies                | 10,661,797              | 1,594,520           | 22,309,264        | 34,565,581           |
| Deferred tax assets                                   | 161,485                 | –                   | –                 | 161,485              |
| Unallocated corporate assets                          |                         |                     |                   | 23,191,123           |
| Total assets  |                         |                     |                   | <u>1,100,255,231</u> |
| Segment liabilities                                   | 335,145,672             | 15,907,992          | 19,598,704        | 370,652,368          |
| Deferred tax liabilities                              | 49,421,768              | –                   | –                 | 49,421,768           |
| Unallocated corporate<br>liabilities                  |                         |                     |                   | 34,824,392           |
| Total liabilities                                     |                         |                     |                   | <u>454,898,528</u>   |
| Capital expenditure                                   | 20,991,752              | –                   | 26,135,128        | 47,126,880           |
| Depreciation  | 2,453,520               | 800,613             | 1,219,028         | 4,473,161            |

## NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. BUSINESS SEGMENT INFORMATION (Continued)

|   | 2000                    |                     |                   |                     |
|---|-------------------------|---------------------|-------------------|---------------------|
|   | Property<br>development | Property<br>leasing | High-tech         | Total               |
| <b>Revenue</b>                            |                         |                     |                   |                     |
| Sales to external customers               | <u>391,400,429</u>      | <u>1,523,302</u>    | <u>69,430,878</u> | <u>462,354,609</u>  |
| <b>Results</b>                            |                         |                     |                   |                     |
| Segment profit (loss)                     | <u>87,512,003</u>       | <u>(1,598,258)</u>  | <u>10,251,139</u> | 96,164,884          |
| Unallocated corporate expenses            |                         |                     |                   | <u>(11,554,872)</u> |
| Operating profit                          |                         |                     |                   | 84,610,012          |
| Interest expense                          |                         |                     |                   | (1,246,623)         |
| Interest income                           |                         |                     |                   | 2,768,572           |
| Share of net loss of associated companies | (164,058)               | (647,820)           | –                 | (811,878)           |
| Gain on trading securities                |                         |                     |                   | 8,376               |
| Subsidy                                   | 5,305,205               | –                   | –                 | 5,305,205           |
| Income tax expense                        | (28,686,305)            | –                   | –                 | (28,686,305)        |
| Minority interest                         | (4,350,415)             | 694,953             | (514,182)         | <u>(4,169,644)</u>  |
| Net profit                                |                         |                     |                   | <u>57,777,715</u>   |
| <b>Other information</b>                  |                         |                     |                   |                     |
| Segment assets                            | 639,776,376             | 77,367,062          | 145,661,954       | 862,805,392         |
| Investments in associated companies       | 11,244,579              | 3,521,301           | 13,671,506        | 28,437,386          |
| Deferred tax assets                       | 208,750                 | –                   | –                 | 208,750             |
| Unallocated corporate assets              |                         |                     |                   | <u>29,613,771</u>   |
| Total assets                              |                         |                     |                   | <u>921,065,299</u>  |
| Segment liabilities                       | 250,068,479             | 18,171,017          | 56,094,588        | 324,334,084         |
| Deferred tax liabilities                  | 32,639,376              | –                   | –                 | 32,639,376          |
| Unallocated corporate liabilities         |                         |                     |                   | <u>11,609,307</u>   |
| Total liabilities                         |                         |                     |                   | <u>368,582,767</u>  |
| Capital expenditure                       | 43,984,512              | 3,555               | 8,871,279         | 52,859,346          |
| Depreciation                              | 959,108                 | 2,835,301           | 562,256           | 4,356,665           |

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### 4. TURNOVER

|  | 2001               | 2000               |
|--|--------------------|--------------------|
| Sales and pre-sales of properties held or under development                                    | 518,724,698        | 409,692,288        |
| Sales in relation to supply of network hardware and installation of intelligent home equipment | 88,897,236         | 70,198,982         |
| Rental income from investment properties   | 1,516,421          | 1,620,074          |
|  | <u>609,138,355</u> | <u>481,511,344</u> |
| Less: Business tax and surtaxes ( <i>Note (i)</i> )  | (27,192,859)       | (21,928,448)       |
| Add: Financial refund ( <i>Note (ii)</i> )   | 4,064,940          | 2,771,713          |
|  | <u>586,010,436</u> | <u>462,354,609</u> |
| Net  |                    |                    |

*Note (i)* The Group is subject to business tax ("BT") at 5% on the revenue from the sale/pre-sale of properties, installation of intelligent home equipment and rental income.

In addition to BT, some subsidiaries are subject to the following surtaxes:

- City development tax, a tax levied at 7% of BT or Value-Added Tax ("VAT");
- Education supplementary tax, a tax levied at 3% of BT or VAT.

*Note (ii)* Based on documents issued by the local authorities, Cosco-Xin Dong, Trans Ocean Construction and Well Real Estate are entitled to a financial subsidy equal to 30%, 30% and 35% of BT paid respectively. Cosco-Xin Dong enjoyed such financial subsidy until August 2000 while no specific expiry date has been mentioned for the financial subsidy being enjoyed by Trans Ocean Construction and Well Real Estate. Based on Circular Guofa (2000)2 issued in January 2000, the above financial refund would require approval from the State authority. Otherwise, it may cease to be available to the companies effective January 1, 2000. As these companies have not received relevant approvals for such refunds, they are recognised on a cash basis.

Approximately 44% (2000: 23%) of the turnover for the year was made to the Group's five largest customers. Sales and gross margin generated from the largest customer accounted for 34% and 38% (2000: 21% and 20%) of the Group's turnover and gross profit respectively for the year.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. PROFIT BEFORE TAXATION

The consolidated profit before taxation was determined after crediting or charging the following:

|   | 2001       | 2000       |
|---|------------|------------|
| Crediting:                                      |            |            |
| Interest income on bank deposits                | 1,223,566  | 2,768,572  |
| Realised gain on disposal of trading securities | –          | 23,776     |
| Charging:                                       |            |            |
| Provision for fixed assets impairment loss      | 4,000,000  | –          |
| Depreciation of fixed assets                    | 4,473,161  | 4,356,665  |
| Amortization of goodwill                        | 328,116    | 164,058    |
| Cost of inventories                             | 63,158,594 | 56,280,561 |
| Staff costs (excluding directors)               |            |            |
| – Salaries and wages                            | 7,251,074  | 6,241,311  |
| – Pension                                       | 926,278    | 512,779    |
| Interest expense on bank loans                  | 1,879,774  | 1,246,623  |
| Operating lease expenses for offices            | 1,562,692  | 1,101,034  |
| Unrealised loss on trading securities           | –          | 15,400     |
| Exchange loss, net                              | 11,286     | 67,888     |
| Provisions for maintenance fund                 | 4,636,628  | 4,704,987  |
| Auditors' remuneration                          | 939,800    | 939,800    |

### 6. NET PROFIT FOR THE YEAR

The consolidated profit attributable to shareholders included a net profit of HK\$ 18,156,693 dealt with in the financial statements of the Company (2000: HK\$ 12,367,448).

### 7. TAXATION

#### (a) Income tax expense

|                                      | 2001              | 2000              |
|--------------------------------------|-------------------|-------------------|
| Current                              | 20,604,909        | 11,580,260        |
| Deferred taxation ( <i>Note 15</i> ) | 16,829,657        | 17,106,045        |
|                                      | <u>37,434,566</u> | <u>28,686,305</u> |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. TAXATION

#### (a) Income tax expense

The Group conducts a significant portion of its business in the PRC and the applicable enterprise income tax ("EIT") rate of its subsidiaries operating in the PRC is generally 33% other than Housing Technology, a Sino-foreign equity joint venture, which is engaged in manufacturing and thus entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years commencing from the first profitable year of operation after offsetting all tax losses carried from previous years (at most five years). 2001 was the second profitable year of operation for Housing Technology and it was thus not subject to EIT.

Based on a document issued by the local finance bureau, Cosco-Xin Dong is entitled to a financial refund equivalent to the amount of EIT paid for the period from September 1, 1997 to August 31, 2000. Based on Circular Guofa (2000)2 issued in January 2000, the financial refund would require approval from the State authority. Otherwise, it may cease to be available effective from January 1, 2000. As relevant approvals for such refunds have not been obtained, they are recognised on a cash basis. No such refunds were received in 2001 (2000: HK\$ 5,305,205).

The Company is exempted from taxation in Bermuda until 2016. There were also no Hong Kong profits tax liabilities as the Group did not earn any profit assessable to Hong Kong profits tax.

The reconciliation of the effective tax rate to the applicable tax rate is as follows:

|   | 2001               |             | 2000              |             |
|---|--------------------|-------------|-------------------|-------------|
| Profit before taxation  | 117,947,847        |             | 90,633,664        |             |
| Add: Net loss incurred by the Company before accounting for the dividend income from subsidiaries which was eliminated on consolidation | 11,401,502         |             | 8,776,244         |             |
| Accounting profit derived from PRC  | <u>129,349,349</u> | <u>100%</u> | <u>99,409,908</u> | <u>100%</u> |
| Tax at the applicable tax rate of 33% (2000: 33%)   | 42,685,285         | 33%         | 32,805,269        | 33%         |
| Tax effect of tax losses of subsidiaries not accounted for  | 2,797,968          | 2%          | 653,470           | 1%          |
| Tax effect of different tax rate of a subsidiary  | (8,048,687)        | (6%)        | (3,365,679)       | (3%)        |
| Tax effect of expenses and income that are not deductible or assessable for tax purposes  | -                  | -           | (1,406,755)       | (2%)        |
| Tax expense   | <u>37,434,566</u>  | <u>29%</u>  | <u>28,686,305</u> | <u>29%</u>  |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. TAXATION (Continued)

#### (b) Business tax ("BT")

The Group is subject to BT at 5% on the revenue from the sale / pre-sale of properties, installation of intelligent home equipment, and rental income.

#### (c) Value-added Tax ("VAT")

The Group is subject to VAT, which is levied at general rate of 17% on the gross turnover upon sale or purchase of goods. An input credit is available whereby VAT previously paid on purchases of raw materials, semi-finished products, etc., may be used to offset the VAT payable on sales to determine the net VAT payable. VAT is not included in the consolidated income statement.

### 8. DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS

#### (a) Details of emoluments paid to the directors pursuant to Section 161 of the Companies Ordinance are as follows:

|  | 2001              | 2000             |
|--|-------------------|------------------|
| Non-executive directors                                  |                   |                  |
| – Fees   | –                 | –                |
| – Other emoluments                                       | 210,000           | 263,144          |
|  | <u>210,000</u>    | <u>263,144</u>   |
| Executive directors                                      |                   |                  |
| – Fees   | –                 | –                |
| – Pension scheme   | –                 | –                |
| – Basic salaries and allowances and benefits in kind (i) | 10,268,160        | 6,166,840        |
| – Discretionary bonuses                                  | –                 | –                |
|  | <u>10,268,160</u> | <u>6,166,840</u> |
| Total  | <u>10,478,160</u> | <u>6,429,984</u> |

- (i) Benefits in kind include the difference between the market price of the Company's shares and the exercise price of share options granted to the directors at the date of exercise of those options irrespective of whether the resulting shares were sold or retained by the directors. The difference amounted to approximately HK\$4,368,000 and does not affect the results of operations of the Group.

No directors waived the right to receive emoluments during the year.

The above analysis also takes into account the aggregate benefits realised by the directors on the exercise of share options as noted in (i) above.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 8. DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS

- (b) Details of emoluments paid to the five highest paid individuals (including directors and employees) in the Group were as follows:

|  | 2001             | 2000             |
|--|------------------|------------------|
| Basic salaries and allowances and benefits in kind | 7,948,080        | 4,300,080        |
| Discretionary bonuses                              | —                | —                |
|  | <u>7,948,080</u> | <u>4,300,080</u> |
| Number of directors                                | 5                | 5                |
| Number of employees                                | —                | —                |
|  | <u>5</u>         | <u>5</u>         |

The annual emoluments paid during the year to each of the five highest paid individuals (including directors and employees) were less than HK\$1,000,000.

The above analysis also takes into account the aggregate benefits realised by the individuals on the exercise of share options as noted in (i) above.

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

### 9. CONTRIBUTIONS TO STATUTORY PENSION SCHEME AND HOUSING POLICY

Pursuant to PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff have been made monthly to a government agency based on 28.5% of the standard salary set by the provincial government, of which 22.5% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. In addition, the Company participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's monthly salary are made by the employer and the Hong Kong employee. The provision and contributions have been included in the accompanying consolidated income statement. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

The Group does not hold any staff dormitories. Hence, the Group had no sale of dormitories to its staff during the year.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 10. DIVIDENDS

|  | 2001              | 2000              |
|--|-------------------|-------------------|
| Dividends proposed and paid                                    |                   |                   |
| – Final dividend of HK\$ 0.012 per share<br>(2000: HK\$ 0.017) | 12,000,000        | 17,000,000        |
|  | <u>12,000,000</u> | <u>17,000,000</u> |

The directors proposed a final dividend of HK\$ 0.0159 per share, totalling HK\$ 18 million for the year ended 31st December, 2001 after the balance sheet date but before the financial statements approval date. Such dividends declared are not recognised as a liability as at the balance sheet date (Note 22).

### 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary shareholders of HK\$ 79,710,068 (2000: HK\$ 57,777,715), divided by the weighted average number of ordinary shares outstanding during the year of 1,002,547,233 shares (2000: 1,000,000,000 shares).

Diluted earnings per share is computed by dividing net profit for the year attributable to ordinary shareholders of HK\$ 79,710,068 (2000: HK\$ 57,777,715) by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares from the exercise of share options.

The weighted average number of ordinary shares used to compute diluted earnings per share was 1,015,340,524 (2000: 1,010,925,353).

Reconciliation of the number of ordinary shares for calculation of basic and diluted earnings per share:

|   | 2001                 | 2000                 |
|---|----------------------|----------------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share         | 1,002,547,233        | 1,000,000,000        |
| Deemed issue of ordinary shares for no consideration on the date the share options were granted | 12,793,291           | 10,925,353           |
|   | <u>1,015,340,524</u> | <u>1,010,925,353</u> |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. FIXED ASSETS

#### GROUP

|   | 2001                     |            |                                |   |                   |                              | 2000        |
|---|--------------------------|------------|--------------------------------|---|-------------------|------------------------------|-------------|
|   | Investment<br>properties | Building   | Leasehold<br>improve-<br>ments | Furniture,<br>fixtures and<br>office<br>equipment | Motor<br>vehicles | Construction-<br>in-progress | Total       |
|   |                          |            |                                |   |                   |                              | Total       |
| <b>Cost or valuation</b>                                      |                          |            |                                |   |                   |                              |             |
| Beginning of year   | 58,466,906               | 36,161,830 | 8,876,085                      | 13,556,309  | 3,794,918         | 19,044,242                   | 139,900,290 |
| Additions   | -                        | 10,122,250 | -                              | 1,037   | 2,262,523         | 35,326,826                   | 52,859,346  |
| Revaluations  | 7,182,727                | -          | -                              | -   | -                 | -                            | 7,182,727   |
| Disposals   | -                        | -          | (477,575)                      | (366,868)   | -                 | -                            | (844,443)   |
| Translation difference  | -                        | -          | -                              | -   | -                 | -                            | 378,678     |
| Reclassification  | -                        | 15,054,706 | -                              | 1,162,762   | -                 | (16,217,468)                 | -           |
| End of year   | 65,649,633               | 61,338,786 | 8,398,510                      | 14,353,240  | 6,057,441         | 38,153,600                   | 193,951,210 |
| Representing:   |                          |            |                                |   |                   |                              |             |
| At cost   | -                        | 61,338,786 | 8,398,510                      | 14,353,240  | 6,057,441         | 38,153,600                   | 128,301,577 |
| At valuation  | 65,649,633               | -          | -                              | -   | -                 | -                            | 65,649,633  |
|   | 65,649,633               | 61,338,786 | 8,398,510                      | 14,353,240  | 6,057,441         | 38,153,600                   | 193,951,210 |
| <b>Accumulated<br/>depreciation and<br/>impairment losses</b> |                          |            |                                |   |                   |                              |             |
| Beginning of year   | -                        | 337,961    | 4,115,486                      | 2,418,001   | 1,088,806         | -                            | 7,960,254   |
| Charge for the year   | -                        | 1,715,484  | 541,711                        | 1,327,997   | 887,969           | -                            | 4,473,161   |
| Impairment losses<br>(Note 33(c))                             | -                        | -          | 4,000,000                      | -   | -                 | -                            | 4,000,000   |
| Disposals   | -                        | -          | (258,687)                      | -   | -                 | -                            | (258,687)   |
| Translation difference  | -                        | -          | -                              | -   | -                 | -                            | 15,118      |
| End of year   | -                        | 2,053,445  | 8,398,510                      | 3,745,998   | 1,976,775         | -                            | 16,174,728  |
| <b>Net book value</b>   |                          |            |                                |   |                   |                              |             |
| Balance, end of year  | 65,649,633               | 59,285,341 | -                              | 10,607,242  | 4,080,666         | 38,153,600                   | 177,776,482 |
| Balance, beginning<br>of year                                 | 58,466,906               | 35,823,869 | 4,760,599                      | 11,138,308  | 2,706,112         | 19,044,242                   | 131,940,036 |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. FIXED ASSETS

#### COMPANY

|   | 2001       |   |            | 2000      |
|---|------------|---|------------|-----------|
|   | Building   | Furniture,<br>fixtures and<br>office<br>equipment | Total      | Total     |
| <b>Cost</b>   |            |   |            |           |
| Beginning of year   | –          | 1,219,030   | 1,219,030  | 202,870   |
| Additions   | 10,122,250 | –   | 10,122,250 | 1,016,160 |
| Disposals   | –          | (466,035)   | (466,035)  | –         |
| End of year   | 10,122,250 | 752,995   | 10,875,245 | 1,219,030 |
| <b>Accumulated depreciation<br/>and impairment losses</b> |            |   |            |           |
| Beginning of year   | –          | 240,286   | 240,286    | 25,598    |
| Additions   | –          | 253,687   | 253,687    | 214,688   |
| Disposals   | –          | (258,687)   | (258,687)  | –         |
| End of year   | –          | 235,286   | 235,286    | 240,286   |
| <b>Net book value</b>                                     |            |   |            |           |
| Balance, end of year                                      | 10,122,250 | 517,709   | 10,639,959 | 978,744   |
| Balance, beginning of year                                | –          | 978,744   | 978,744    | 177,272   |

All investment properties are located in the PRC and the land use period of the related land use rights are from 48 to 70 years expiring in 2043 through 2068.

The Group's investment properties as of December 31, 2001 were appraised by Vigers Hong Kong Limited, independent professional valuers, on 1st March, 2002. These properties were appraised on an open market basis and are carried in the balance sheet at market value. As a result of the appraisal, an increase in value, net of minority interests' share, of the Group's investment properties of approximately HK\$ 2.7 million as of 31st December, 2001 was credited (2000: decrease of HK\$ 2.2 million was debited) to the revaluation reserve.

As of 31st December, 2001, the Group's investment properties of approximately HK\$ 10 million were due for removal (Note 33(c)). As of 31st December, 2001, approximately HK\$ 10 million of the Company's buildings were mortgaged as collateral for the Company's long-term bank loans (Note 23).

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. INVESTMENTS IN SUBSIDIARIES

#### COMPANY

|                                    | 2001               | 2000               |
|------------------------------------|--------------------|--------------------|
| Unlisted equity interests, at cost | 286,886,723        | 243,619,413        |
| Amounts due from subsidiaries      | 84,345,397         | 69,028,710         |
|                                    | <u>371,232,120</u> | <u>312,648,123</u> |

Details of the subsidiaries as of 31st December, 2001 are set out in Note 1.

The amounts due from subsidiaries were unsecured, non-interest bearing and without fixed repayment terms.

The directors are of the opinion that the underlying values of the subsidiaries are not less than their carrying values as of 31st December, 2001.

### 14. INVESTMENTS IN ASSOCIATED COMPANIES

#### GROUP

|  | 2001              | 2000              |
|--|-------------------|-------------------|
| Investments (unlisted), at cost                                  |                   |                   |
| – Share of net identifiable assets of associated companies       | 26,287,008        | 18,744,107        |
| – Goodwill on acquisition  | 6,562,323         | 6,562,323         |
|  | <u>32,849,331</u> | <u>25,306,430</u> |
| Accumulated amortization of goodwill                             | (492,174)         | (164,058)         |
| Accumulated share of post acquisition profits less distributions | 2,567,553         | 3,295,014         |
| Unrealised profit from transaction with an associated company    | (359,129)         | –                 |
|  | <u>34,565,581</u> | <u>28,437,386</u> |

Details of the associated companies as of 31st December, 2001 are set out in Note 1.

The directors are of the opinion that the underlying values of the associated companies are not less than their carrying values as of 31st December, 2001.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 14. INVESTMENTS IN ASSOCIATED COMPANIES

#### GROUP

Supplementary financial information of associated companies:

|                               | 2001              | 2000              |
|-------------------------------|-------------------|-------------------|
| Balance sheet                 |                   |                   |
| Share of net assets           | 28,854,561        | 22,039,121        |
| Goodwill                      | 6,070,149         | 6,398,265         |
| Unrealised profit             | (359,129)         | –                 |
|                               | <u>34,565,581</u> | <u>28,437,386</u> |
| Profit and loss               |                   |                   |
| Share of loss before taxation | 727,461           | 647,820           |
| Share of taxation             | –                 | –                 |
| Share of net loss             | 727,461           | 647,820           |
| Amortisation of goodwill      | 328,116           | 164,058           |
| Unrealised profit             | 359,129           | –                 |
|                               | <u>1,414,706</u>  | <u>811,878</u>    |

### 15. DEFERRED TAXATION

#### GROUP

|   | 2001                | 2000                |
|---|---------------------|---------------------|
| Balance, beginning of year                          | (32,430,626)        | (15,259,835)        |
| Current year's timing differences ( <i>Note 7</i> ) | (16,829,657)        | (17,106,045)        |
| Translation differences                             | –                   | (64,746)            |
| Balance, end of year                                | <u>(49,260,283)</u> | <u>(32,430,626)</u> |
| Representing:                                       |                     |                     |
| Deferred tax assets                                 | 161,485             | 208,750             |
| Deferred tax liabilities                            | (49,421,768)        | (32,639,376)        |
|   | <u>(49,260,283)</u> | <u>(32,430,626)</u> |

Deferred taxation represents the tax effect of timing differences arising from the use of different bases of recognition of revenues and expenses for financial reporting and tax purposes. There was no material unprovided deferred tax as of 31st December, 2001.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 16. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

#### GROUP

|  | Included in<br>current assets | 2001<br>Included in<br>current<br>liabilities | Total              |
|--|-------------------------------|---|--------------------|
| At cost  | 717,351,757                   | 194,541,346                                   | 911,893,103        |
| Add: attributable profits on<br>pre-sold properties            | 106,558,513                   | 93,516,419                                    | 200,074,932        |
|  | 823,910,270                   | 288,057,765                                   | 1,111,968,035      |
| Less: sale instalments and deposits<br>received and receivable | (292,883,265)                 | (316,162,608)                                 | (609,045,873)      |
|  | <u>531,027,005</u>            | <u>(28,104,843)</u>                           | <u>502,922,162</u> |
|  | Included in<br>current assets | 2000<br>Included in<br>current<br>liabilities | Total              |
| At cost  | 559,914,699                   | 272,167,977                                   | 832,082,676        |
| Add: attributable profits on<br>pre-sold properties            | 34,386,526                    | 190,751,616                                   | 225,138,142        |
|  | 594,301,225                   | 462,919,593                                   | 1,057,220,818      |
| Less: sale instalments and deposits<br>received and receivable | (166,450,553)                 | (538,314,680)                                 | (704,765,233)      |
|  | <u>427,850,672</u>            | <u>(75,395,087)</u>                           | <u>352,455,585</u> |

All properties held or under development for sale are situated in Shanghai, the PRC.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 17. PREPAYMENTS AND OTHER CURRENT ASSETS

#### GROUP

|                         | 2001              | 2000              |
|-------------------------|-------------------|-------------------|
| Prepayment for land (i) | 71,598,529        | –                 |
| Tender deposit (ii)     | –                 | 40,543,089        |
| Prepayment to suppliers | –                 | 6,000,000         |
| Others                  | 9,342,028         | 3,883,743         |
|                         | <u>80,940,557</u> | <u>50,426,832</u> |

- (i) The Group reached an agreement with COSCO Development Company Limited to purchase a parcel of land located in Hainan Province, PRC. The total contracted amount is approximately HK\$ 80 million. As of 31st December, 2001, the Group had made the first instalment payment of approximately HK\$ 71.6 million, and the title to this land had not yet been legally transferred to the Group.
- (ii) Tender deposit arose from a sizable project which a subsidiary, Housing Technology, tried to secure. Housing Technology participated in a tender for the construction of a broad band network located in Hainan province, the PRC. In accordance with the requirements of the project, Housing Technology paid an amount of RMB 43,000,000 (equivalent to HK\$ 40,543,089) to the counter party of the contract when the tender was submitted. This amount was fully repaid to Housing Technology in 2001 as it was unsuccessful in its bid.

### 18. TRADE RECEIVABLES, NET

#### GROUP

|                                       | 2001              | 2000              |
|---------------------------------------|-------------------|-------------------|
| Accounts receivable                   | 82,684,151        | 49,830,091        |
| Less: Provision for doubtful accounts | (15,139)          | (15,139)          |
|                                       | <u>82,669,012</u> | <u>49,814,952</u> |

An aging analysis of trade receivables is set out below:

|                                    | 2001              | 2000              |
|------------------------------------|-------------------|-------------------|
| 0-360 days                         | 65,165,249        | 48,253,548        |
| 361-720 days                       | 17,518,902        | 1,576,543         |
| Over 720 days                      | –                 | –                 |
| Less: Provision for doubtful debts | (15,139)          | (15,139)          |
|                                    | <u>82,669,012</u> | <u>49,814,952</u> |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 18. TRADE RECEIVABLES, NET *(Continued)*

#### GROUP *(Continued)*

Accounts receivable mainly arose from unsettled billings which were made in accordance with instalment terms stipulated in pre-sale contracts.

The normal credit period granted by the Group is between one and two months. The amounts outstanding for more than one year resulted from pre-sales of properties where customers have placed deposits without entering into mortgage financing arrangements. Progress billings were made in accordance with the terms of the sales agreements but revenue has only been recognised to the extent cash is received. Furthermore, the title to the properties had not yet been transferred to the customers. Thus, the associated credit risk of such receivables is low and adequately provided for.

### 19. TRADING SECURITIES

#### GROUP AND COMPANY

|  | 2001     | 2000            |
|--|----------|-----------------|
| Cost of equity securities                                | –        | 611,032         |
| Unrealised loss  | –        | (15,400)        |
|  | <u>–</u> | <u>(15,400)</u> |
| Listed in Hong Kong, equity securities at carrying value | <u>–</u> | <u>595,632</u>  |
| Quoted market value of listed investments                | <u>–</u> | <u>595,632</u>  |

### 20. SHARE CAPITAL

#### GROUP AND COMPANY

|                                       | 2001                 |                       | 2000                 |                       |
|---------------------------------------|----------------------|-----------------------|----------------------|-----------------------|
|                                       | Number of<br>shares  | Nominal<br>value HK\$ | Number of<br>shares  | Nominal<br>value HK\$ |
| Authorised:                           |                      |                       |                      |                       |
| – Ordinary shares of<br>HK\$0.10 each | <u>2,000,000,000</u> | <u>200,000,000</u>    | <u>2,000,000,000</u> | <u>200,000,000</u>    |
| Issued and fully paid:                |                      |                       |                      |                       |
| – Ordinary shares of<br>HK\$0.10 each | <u>1,032,060,000</u> | <u>103,206,000</u>    | <u>1,000,000,000</u> | <u>100,000,000</u>    |



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## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 20. SHARE CAPITAL (*Continued*)

#### GROUP AND COMPANY (*Continued*)

Upon incorporation of the Company on 11th August, 1999, the Company issued 1,000,000 shares of HK\$ 0.10 each to Good Time Resources Limited, a company incorporated in the British Virgin Islands, for nil consideration. On 12th November, 1999, pursuant to the re-organisation described in Note 1 to the financial statements, 749,000,000 shares of HK\$ 0.01 each were issued to Good Time Resources Limited for the acquisition of the equity interests of the companies comprising the Group. As of 31st December, 2001, 750,000,000 of the Company's shares were held by Good Time Resources Limited. The directors consider Good Time Resources Limited to be the ultimate holding company of the Group.

On 8th December, 1999, the Company issued 25,000,000 ordinary shares of HK\$ 0.10 each to the public and 225,000,000 shares of HK\$ 0.10 each were issued under a private placement, all of which were issued at HK\$ 0.798 each for a total cash consideration of HK\$ 199,500,000 before the related share issuance expenses.

The shares of the Company were listed on the SEHK on 10th December, 1999.

During the year ended 31st December, 2001, a total of 32,060,000 shares were issued on exercise of share options. These shares rank *pari passu* in all respects with the existing shares in issue.

### 21. SHARE OPTION SCHEME

The Company adopted a share option scheme under which the directors may, at their discretion at any time during ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will not be less than the greater of (i) 80 per cent of the average official closing price of the shares on the SEHK for the five trading days immediately preceding the relevant offer date and (ii) the nominal value of the shares. The terms of the scheme provide that an option may be exercised under the scheme at any time during the period commencing on the date upon which such option is deemed to be granted and accepted. The directors may determine and adjust the period within which the relevant grantee may exercise his or her option and the proportion of the options to be exercised in each period, so long as the period within which the option must be taken up is not more than three years from the date of grant of the option.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 21. SHARE OPTION SCHEME

A summary of the movements of share options granted under the scheme during the year is as follows:

| Exercise price<br>per share            | HK\$0.41-<br>HK\$0.50 | HK\$0.51-<br>HK\$0.60 | HK\$0.71-<br>HK\$0.80 | HK\$0.81-<br>HK\$0.90 | Total             |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| Beginning<br>of year                   | 23,000,000            | 3,000,000             | 4,900,000             | —                     | 30,900,000        |
| Granted during<br>the year             | 2,900,000             | —                     | 3,000,000             | 50,800,000            | 56,700,000        |
| Exercised during<br>the year           | (24,160,000)          | (3,000,000)           | (4,900,000)           | —                     | (32,060,000)      |
| Cancelled/lapsed<br>during the<br>year | —                     | —                     | —                     | —                     | —                 |
| End of year                            | <u>1,740,000</u>      | <u>—</u>              | <u>3,000,000</u>      | <u>50,800,000</u>     | <u>55,540,000</u> |

Proceeds from share options exercised during the year were credited against share capital (par value amount) and share premium accordingly.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. RESERVES

#### GROUP

|  | Share<br>premium   | Revaluation<br>reserve<br>(Note(b)) | Statutory<br>surplus<br>reserve<br>(Note(a)) | Statutory<br>public<br>welfare<br>fund<br>(Note(a)) | Exchange<br>Translation<br>reserve<br>(Note(b)) | Retained<br>earnings<br>(Note(c)) | Total              |
|--|--------------------|-------------------------------------|--|---|---|-----------------------------------|--------------------|
| Balance as of<br>1st January,<br>2000                              |                    |                                     |  |   |   |                                   |                    |
| – as previously<br>reported  | 266,627,780        | 9,817,523                           | 9,960,737                                    | 4,973,908   | (1,169,473)                                     | 61,055,282                        | 351,265,757        |
| – changes in<br>accounting<br>policy<br>(Note 2(b)<br>and Note 10) | –                  | –                                   | –  | –   | –   | 17,000,000                        | 17,000,000         |
|  | 266,627,780        | 9,817,523                           | 9,960,737                                    | 4,973,908   | (1,169,473)                                     | 78,055,282                        | 368,265,757        |
| Deficit arising on<br>revaluation of<br>properties                 | –                  | (2,255,035)                         | –  | –   | –   | –                                 | (2,255,035)        |
| Net profit for<br>the year   | –                  | –                                   | –  | –   | –   | 57,777,715                        | 57,777,715         |
| Appropriation of<br>profit to statutory<br>surplus reserve         | –                  | –                                   | 3,420,862                                    | –   | –   | (3,420,862)                       | –                  |
| Appropriation of<br>profit to statutory<br>welfare fund            | –                  | –                                   | –  | 1,197,746   | –   | (1,197,746)                       | –                  |
| Distributions during<br>the year (Note 2(b)<br>and Note 10)        | –                  | –                                   | –  | –   | –   | (17,000,000)                      | (17,000,000)       |
| Currency translation<br>differences                                | –                  | –                                   | –  | –   | 1,403,247                                       | –                                 | 1,403,247          |
| Balance as of<br>31st December,<br>2000                            | <u>266,627,780</u> | <u>7,562,488</u>                    | <u>13,381,599</u>                            | <u>6,171,654</u>                                    | <u>233,774</u>                                  | <u>114,214,389</u>                | <u>408,191,684</u> |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. RESERVES (Continued)

#### GROUP (Continued)

|  | Share<br>premium   | Revaluation<br>reserve<br>(Note(b)) | Statutory<br>surplus<br>reserve<br>(Note(a)) | Statutory<br>public<br>welfare<br>fund<br>(Note(a)) | Exchange<br>Translation<br>reserve<br>(Note(b)) | Retained<br>earnings<br>(Note(c)) | Total              |
|--|--------------------|-------------------------------------|--|---|---|-----------------------------------|--------------------|
| Balance as of<br>1st January, 2001                                 |                    |                                     |  |   |   |                                   |                    |
| – as previously<br>reported  | 266,627,780        | 7,562,488                           | 13,381,599                                   | 6,171,654   | 233,774   | 102,214,389                       | 396,191,684        |
| – changes in<br>accounting<br>policy<br>(Note 2(b)<br>and Note 10) | –                  | –                                   | –  | –   | –   | 12,000,000                        | 12,000,000         |
|  | 266,627,780        | 7,562,488                           | 13,381,599                                   | 6,171,654   | 233,774   | 114,214,389                       | 408,191,684        |
| Shares issued under<br>share option<br>scheme (Note 20)            | 12,595,000         | –                                   | –  | –   | –   | –                                 | 12,595,000         |
| Surplus arising on<br>revaluation of<br>properties                 | –                  | 2,676,203                           | –  | –   | –   | –                                 | 2,676,203          |
| Net profit for<br>the year   | –                  | –                                   | –  | –   | –   | 79,710,068                        | 79,710,068         |
| Appropriation of<br>profit to statutory<br>surplus reserve         | –                  | –                                   | 4,551,630                                    | –   | –   | (4,551,630)                       | –                  |
| Appropriation of<br>profit to statutory<br>welfare fund            | –                  | –                                   | –  | 1,107,300   | –   | (1,107,300)                       | –                  |
| Distributions during<br>the year (Note 2(b)<br>and Note 10)        | –                  | –                                   | –  | –   | –   | (12,000,000)                      | (12,000,000)       |
| Currency translation<br>differences                                | –                  | –                                   | –  | –   | 12,002  | –                                 | 12,002             |
| Balance as of<br>31st December,<br>2001                            | <u>279,222,780</u> | <u>10,238,691</u>                   | <u>17,933,229</u>                            | <u>7,278,954</u>                                    | <u>245,776</u>                                  | <u>176,265,527</u>                | <u>491,184,957</u> |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. RESERVES (Continued)

#### COMPANY

|   | Share<br>premium   | Retained<br>earnings<br>(Note (c)) | Total              |
|---|--------------------|------------------------------------|--------------------|
| Balance as of 1st January, 2000                           |                    |                                    |                    |
| – as previously reported                                  | 266,627,780        | 117,738                            | 266,745,518        |
| – changes in accounting policy<br>(Note 2(b) and Note 10) | –                  | 17,000,000                         | 17,000,000         |
|   | 266,627,780        | 17,117,738                         | 283,745,518        |
| Net profit for the year                                   | –                  | 12,367,448                         | 12,367,448         |
| Distributions during the year<br>(Note 2(b) and Note 10)  | –                  | (17,000,000)                       | (17,000,000)       |
| Balance as of 31st December, 2000                         | <u>266,627,780</u> | <u>12,485,186</u>                  | <u>279,112,966</u> |
| Balance as of 1st January, 2001                           |                    |                                    |                    |
| – as previously reported                                  | 266,627,780        | 485,186                            | 267,112,966        |
| – changes in accounting policy<br>(Note 2(b) and Note 10) | –                  | 12,000,000                         | 12,000,000         |
|   | 266,627,780        | 12,485,186                         | 279,112,966        |
| Shares issued under share option<br>scheme (Note 20)      | 12,595,000         | –                                  | 12,595,000         |
| Net profit for the year                                   | –                  | 18,156,693                         | 18,156,693         |
| Distributions during the year<br>(Note 2(b) and Note 10)  | –                  | (12,000,000)                       | (12,000,000)       |
| Balance as of 31st December, 2001                         | <u>279,222,780</u> | <u>18,641,879</u>                  | <u>297,864,659</u> |

- (a) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit as reported in their respective statutory accounts. All statutory reserves are created for specific purposes.

Companies within the Group that are registered in the PRC are required to appropriate 10% of their net profits as reported in the statutory accounts to the statutory surplus reserve; such appropriation is optional when the statutory surplus reserve has reached 50% of their share capital. The statutory surplus reserve can only be used, upon approval by the relevant authority, to offset a deficit or increase share capital. However, such statutory surplus reserve shall be maintained at a minimum of 25% of share capital after such issuance.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. RESERVES (Continued)

#### COMPANY (Continued)

Companies within the Group that are registered in the PRC are also required to appropriate 5% to 10% of their net profits to the statutory public welfare fund, which can only be used for capital expenditures for the collective welfare of the employees.

- (b) The exchange translation reserve and revaluation reserve have been established and dealt with in accordance with the accounting policies adopted for foreign currency translation and the revaluation of investment properties.
- (c) Retained earnings may be carried forward for future distribution.

### 23. BANK LOANS

#### GROUP AND COMPANY

|  | Group             |                   | Company          |          |
|--|-------------------|-------------------|------------------|----------|
|  | 2001              | 2000              | 2001             | 2000     |
| Short-term bank loans  |                   |                   |                  |          |
| – Secured  | 29,285,876        | –                 | 1,000,000        | –        |
| – Unsecured  | 5,864,605         | 57,514,614        | –                | –        |
|  | <u>35,150,481</u> | <u>57,514,614</u> | <u>1,000,000</u> | <u>–</u> |
| Long-term bank loans   |                   |                   |                  |          |
| – Secured  | <u>6,760,423</u>  | <u>–</u>          | <u>6,760,423</u> | <u>–</u> |
| The maturity of long-term bank loans is as follows:              |                   |                   |                  |          |
| – Within one year  | 452,667           | –                 | 452,667          | –        |
| – More than one year but not exceeding two years                 | 452,667           | –                 | 452,667          | –        |
| – More than two years but not exceeding five years               | 1,358,000         | –                 | 1,358,000        | –        |
| – More than five years   | 4,497,089         | –                 | 4,497,089        | –        |
|  | <u>6,760,423</u>  | <u>–</u>          | <u>6,760,423</u> | <u>–</u> |
| Less: Amount due within one year shown under current liabilities | (452,667)         | –                 | (452,667)        | –        |
|  | <u>6,307,756</u>  | <u>–</u>          | <u>6,307,756</u> | <u>–</u> |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 23. BANK LOANS (Continued)

#### GROUP AND COMPANY (Continued)

As of 31st December, 2001, except for HK\$ 1 million of short-term bank loans that were denominated in HK\$, which bore interest at 4% per annum, all short-term bank loans were denominated in RMB, and bore interest at rates ranging from 5.58% to 6.44% per annum (2000: 5.85% to 7.02% per annum). Short-term bank loans of approximately HK\$29 million were secured by pledges of the Group's land and buildings (Note 30).

As of 31st December, 2001, the secured long-term bank loans were denominated in HK\$, secured by pledges of the Company's buildings (Note 12) and bore interest at 3.5% per annum.

### 24. ACCOUNTS PAYABLE

The age of the Group's accounts payable are all less than one year.

### 25. OTHER PAYABLES AND ACCRUALS

#### GROUP

|   | 2001               | 2000              |
|---|--------------------|-------------------|
| Deposits paid by a potential customer                               | 71,221,045         | —                 |
| Proceeds from sale of properties on behalf of beneficial owners (i) | 62,731,941         | 11,891,129        |
| Advance from a third party (ii)                                     | 22,295,822         | —                 |
| Accrued maintenance fund  | 3,991,027          | 10,302,105        |
| Payable to a minority investor resulting from excess contribution   | 4,714,313          | 4,714,313         |
| Accrued advertising fee   | 3,771,450          | —                 |
| Others  | 23,903,659         | 33,478,718        |
|   | <u>192,629,257</u> | <u>60,386,265</u> |

(i) Including proceeds from sale of properties on behalf of the largest customer, which amounted to HK\$ 52,387,588 (2000: Nil).

(ii) The advance is unsecured, interest free and repayable within one year.

### 26. PROVISION FOR TAXATION

#### GROUP

|                     | 2001              | 2000              |
|---------------------|-------------------|-------------------|
| EIT payable         | 46,006,100        | 25,486,074        |
| BT payable          | 21,804,721        | 9,630,754         |
| VAT payable         | 1,505,129         | —                 |
| Other taxes payable | 438,092           | 581,947           |
|                     | <u>69,754,042</u> | <u>35,698,775</u> |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 27. LONG-TERM PAYABLES

#### GROUP

Long-term payables comprise mainly land premium, compensation fees and other related land costs.

### 28. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from operations:

|  | 2001          | 2000         |
|--|---------------|--------------|
| Profit before taxation   | 117,947,847   | 90,633,664   |
| Adjustments for:   |               |              |
| Provision for fixed assets impairment loss                           | 4,000,000     | —            |
| Depreciation of fixed assets   | 4,473,161     | 4,356,665    |
| Interest income  | (1,223,566)   | (2,768,572)  |
| Interest expense   | 1,879,774     | 1,246,623    |
| Subsidy  | —             | (5,305,205)  |
| Gain on disposal of trading securities                               | —             | (23,776)     |
| Unrealised loss on trading securities                                | —             | 15,400       |
| Share of loss from associated companies                              | 1,414,706     | 811,878      |
| Operating profit before working capital changes                      | 128,491,922   | 88,966,677   |
| Increase in restricted deposit                                       | (1,725,147)   | (7,594,706)  |
| (Increase) Decrease in accounts receivable                           | (32,854,060)  | 3,689,020    |
| Decrease (Increase) in other receivables                             | 2,084,292     | (4,576,478)  |
| Increase in prepayments and other current assets                     | (30,513,725)  | (48,390,735) |
| Increase in amounts due from related companies                       | (1,003,809)   | (1,508,580)  |
| (Increase) Decrease in properties held or under development for sale | (150,466,577) | 60,975,861   |
| Increase in inventories  | (2,223,819)   | —            |
| Decrease in accounts payable   | (19,901,569)  | (94,193,695) |
| Increase in other payables and accruals                              | 132,242,992   | 5,895,685    |
| Increase in provision for taxation                                   | 13,535,241    | 9,261,427    |
| (Decrease) Increase in amounts due to a related company              | (3,017,160)   | 3,960,023    |
| Decrease in long-term payables                                       | (10,952,207)  | (6,116,613)  |
| Cash generated from operations                                       | 23,696,374    | 10,367,886   |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 28. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

#### (b) Analysis of cash and cash equivalents:

##### GROUP

|  | 2001               | 2000               |
|--|--------------------|--------------------|
| Cash on hand                                       | 86,407             | 88,948             |
| Demand deposits                                    | 140,364,735        | 131,855,994        |
| Deposit with financial institution                 | —                  | 37,714,501         |
| Time deposit with a term of less than three months | 2,000,623          | 14,336,735         |
| Cash and cash equivalents                          | 142,451,765        | 183,996,178        |
| Restricted bank deposits (Note 31)                 | 15,409,033         | 13,683,886         |
| Cash and bank balances                             | <u>157,860,798</u> | <u>197,680,064</u> |

#### (c) Analysis of changes in financing:

##### GROUP

|                                   | Share capital<br>(Including<br>Premium) | Long term<br>bank loans |
|-----------------------------------|---|-------------------------|
| Balance as of 1st January, 2000   | 366,627,780                             | —                       |
| Cash flows from financing         | —                                       | —                       |
| Effect of foreign exchange rates  | —                                       | —                       |
| Balance as of 31st December, 2000 | <u>366,627,780</u>                      | <u>—</u>                |
| Balance as of 1st January, 2001   | 366,627,780                             | —                       |
| Cash flows from financing         | 15,801,000                              | 6,760,423               |
| Effect of foreign exchange rates  | —                                       | —                       |
| Balance as of 31st December, 2001 | <u>382,428,780</u>                      | <u>6,760,423</u>        |

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 28. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

#### (d) Segment information

|                      | 2001                    |                     |                     |
|----------------------|-------------------------|---------------------|---------------------|
|                      | Property<br>development | Property<br>leasing | High-tech           |
| Cash flows from:     |                         |                     |                     |
| Operating activities | (3,891,496)             | 73,828              | 27,514,042          |
| Investing activities | (20,662,152)            | —                   | (33,411,997)        |
| Financing activities | 48,705,577              | —                   | (47,143,126)        |
|                      | <u>24,151,929</u>       | <u>73,828</u>       | <u>(53,041,081)</u> |
|                      |                         |                     | <u>(28,815,324)</u> |

### 29. RELATED PARTY TRANSACTIONS

#### (a) During the year, the Group had the following material transactions with related parties

|  | 2001              | 2000     |
|--|-------------------|----------|
| Sales of goods to an associated company                          | <u>31,502,490</u> | <u>—</u> |
| Advance paid for purchase of services from an associated company | <u>5,694,748</u>  | <u>—</u> |

#### (b) As of December 31, 2001, the Group had the following material balances with related parties:

|                                     | 2001             | 2000             |
|-------------------------------------|------------------|------------------|
| Advances to an associated company   | <u>2,512,389</u> | <u>1,508,580</u> |
| Advances from an associated company | <u>942,863</u>   | <u>3,960,023</u> |

The balances with related parties are unsecured, interest free and are receivable or repayable within one year.

### 30. BANKING FACILITIES

As of 31st December, 2001, the Group had aggregate bank loan facilities of approximately HK\$42 million (2000: Nil), which have been fully utilised. These facilities are secured by certain land and buildings with an aggregate value of HK\$43 million (2000: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 31. CONTINGENT LIABILITIES

In respect of certain of the Group's properties for sale, Cosco-Xin Dong, Well Real Estate, Trans Ocean Construction and Tranceocean Development assisted buyers in obtaining mortgage loans from banks. These companies are obliged to assist buyers complete mortgage procedures, and will stand as guarantor prior to the submission of property title by the buyer to the lender banks for mortgage purposes. As of 31st December, 2001, the outstanding guarantees amounted to approximately HK\$ 316 million; in addition, part of the Group's bank deposits amounting to approximately HK\$ 15,409,000 have been restricted (see Note 28(b)).

### 32. COMMITMENTS

#### (a) Capital commitments in respect of properties under development

The Group had outstanding capital commitments in respect of construction costs for properties under development as follows:

|                                   | 2001                 | 2000                 |
|-----------------------------------|----------------------|----------------------|
| Authorised and contracted for     | 174,765,000          | 54,285,000           |
| Authorised but not contracted for | 1,238,480,000        | 1,547,308,000        |
|                                   | <u>1,413,245,000</u> | <u>1,601,593,000</u> |

#### (b) Lease commitments

As of 31st December 2001, the total future minimum lease payments payable under non-cancellable operating leases of the Group are as follows:

|                                 | 2001           | 2000             |
|---------------------------------|----------------|------------------|
| Within 1 year                   | 358,050        | 1,562,692        |
| After 1 year but within 5 years | —              | 358,050          |
| After 5 years                   | —              | —                |
|                                 | <u>358,050</u> | <u>1,920,742</u> |

The group leases a number of properties under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

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### 33. SUBSEQUENT EVENTS

- (a) Pursuant to a resolution made by the Board of Directors subsequent to 31st December, 2001, the Company proposed a final dividend of HK\$ 0.0159 per share for 2001, totalling HK\$ 18 million (Note 10).
- (b) A placing agreement was entered into on 20th March, 2002, pursuant to which the placing agent has agreed to place up to 80,000,000 shares (together with an over allotment option for a maximum of 20,000,000 existing shares held by Good Time Resources Limited (the "Vendor"), the ultimate holding company). The placing was made at a price of HK\$ 0.99 per share.

On the same date, a subscription agreement was also entered into, pursuant to which the Vendor will subscribe for the number of shares placed under the placing agreement at a price of HK\$ 0.99 per share. The subscription is conditional upon the granting by the SEHK of the approval for the listing of and permission to deal in the subscription shares and completion of the placing.

On 21st March, 2002, 100,000,000 shares were placed under the placing agreement to 35 places. The net proceeds from the placing amounted to approximately HK\$ 95 million.

On 3rd April, 2002, the Company issued 100,000,000 shares to the Vendor pursuant to the subscription agreement. The listing of and permission to deal in the subscription shares were approved by the HKSE. Thereafter, the issued share capital of the Company increased from 1,032,060,000 shares to 1,132,060,000 shares, and the shareholding percentage of the Vendor in the Company was diluted from 72.67% to 66.25%.

- (c) On 7th February, 2002, the Company's subsidiary - Xin Shi entered into a compensation agreement with the local government. The land, on which the investment properties of Xin Shi were located, was required by the local government for infrastructure purposes. Pursuant to the compensation agreement, the local government will pay approximately HK\$11,447,000 to Xin Shi as compensation for the value of the investment properties demolished. Accordingly, the operations of Xin Shi ceased from February 2002.

As of 31st December, 2001, the carrying amount of investment properties, excluding leasehold improvements, held by Xin Shi was approximately HK\$ 10,211,000. The total carrying amounts of all the assets are higher than the compensation amount from the local government. Hence, the directors of the Company made a HK\$ 4,000,000 provision for impairment loss as of 31st December, 2001.

As of 31st December, 2001, the carrying amount of the net assets held by Xin Shi was approximately HK\$ 2,524,000. During 2001, Xin Shi earned revenue of approximately HK\$ 1,426,000, and incurred expenses and a net loss of HK\$ 6,701,000 and HK\$ 5,275,000 respectively. During 2001, Xin Shi's cash inflow from operating activities was approximately HK\$ 74,000.





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## NOTES TO THE FINANCIAL STATEMENTS

As of 31st December, 2001

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in accordance with the new presentation and disclosure requirements of the newly introduced HK SSAPs (Note 2(b)).

### 35. DATE OF APPROVAL

The financial statements set out on page 33 to 77 were approved and authorised for issue by the Board of Directors on 25th April, 2002.