

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

1. GENERAL AND COMPARATIVE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company's ultimate holding company is China Strategic Holdings Limited ("CSH"), a company which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately HK\$65,581,000 as at 31st December, 2001. The directors have been taking steps to improve the Group's liquidity position. On 16th April, 2002, CSH has given undertakings to provide financial support to the Company of an amount of HK\$55,000,000. The directors are satisfied that sufficient funding will be obtained from CSH and with the attainment of the profitable operations, the Group will be able to meet its liabilities, as and when they fall due and to enable the Company to continue operating in the next twelve months. Accordingly, the financial statements have been prepared on a going concern basis.

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

During the year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs had no significant effect on the financial statements for the current or prior year. The revised accounting policies are set out in note 4. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, certain items of property, plant and equipment and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill (Continued)

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Interest in an associate

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

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, the Group's interest in an associate is stated at the Group's share of net assets of the associate, less any identified impairment loss.

Recognition of revenue

Income from sale of completed properties is recognised on the execution of a binding sales agreement.

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

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the respective leases.

Hotel revenue from rooms and other ancillary services is recognised when the services are rendered.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

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

Property, plant and equipment

Properties under construction and construction in progress

Properties under construction and construction in progress are stated at cost, which includes land cost and the related construction costs and borrowing costs capitalised in accordance with the Group's accounting policies, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

Hotel property

Hotel property includes interests in land and building and its integral fixed plant. Hotel property is stated at the open market value based on professional valuations at the balance sheet date. No depreciation or amortisation is provided on hotel property. It is the Group's policy to maintain these asset in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated life of this asset any depreciation would be insignificant.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Hotel property (Continued)

Any surplus arising on the revaluation of the hotel property is credited to the revaluation reserve, except to the extent that it reverses a deficit of the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the deficit previously charged. A deficit in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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

Other property, plant and equipment

Property, plant and equipment, other than properties under construction, construction in progress and hotel property, are stated at cost less depreciation, amortisation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

Depreciation and amortisation is provided to write off the cost of the assets over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	20% or the term of the lease or land use rights, if shorter
Furniture, equipment and motor vehicles	12.5% – 20%

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Properties under/held for development

Properties under/held for development where no decision has yet been taken to re-sell or hold for long term purposes are stated at cost, less accumulated impairment losses. No depreciation or amortisation is provided on properties under/held for development.

Costs comprise land cost, development costs, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to the properties.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Investments in securities

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in the net profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Club debenture

Club debenture is stated at cost less any identified impairment loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

Inventories

Inventories comprising food, beverages and general stores are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Pension/retirement benefit scheme

The pension costs/retirement benefit scheme contributions relating to the contribution scheme/mandatory provident fund scheme charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. The amount of contributions payable to previous schemes in jurisdictions other than Hong Kong are charged to the income statement.

Foreign currencies

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

On consolidation, the financial statements of the subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the reserves.

Taxation

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

5. TURNOVER

Turnover represents the net amounts received and receivable from outside customers during the year and is analysed as follows:

	2001	2000
	HK\$'000	HK\$'000
Hotel operation	50,518	50,018
Sales of properties	58,800	12,500
Property rental income	5,630	7,176
	<u>114,948</u>	<u>69,694</u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four major operating divisions – toll highway operation, property sales and development, property rental, and hotel operation. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Toll highway operation	– constructing and operation of toll highway
Property sales and development	– sales and development of properties
Property rental	– leasing of properties
Hotel operation	– operation of hotel

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

An analysis of the Group's revenue and contribution to operating results and segmental assets and liabilities by business segments is presented below:

For the year ended 31st December 2001

	Toll highway operation	Property sales and development	Property rental	Hotel operation	Other operations	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External sales	–	58,800	5,630	50,518	4,002	–	118,950
Inter-segment sales	–	–	–	–	1,685	(1,685)	–
	<u>–</u>	<u>58,800</u>	<u>5,630</u>	<u>50,518</u>	<u>5,687</u>	<u>(1,685)</u>	<u>118,950</u>
Total revenue	<u>–</u>	<u>58,800</u>	<u>5,630</u>	<u>50,518</u>	<u>5,687</u>	<u>(1,685)</u>	<u>118,950</u>
RESULT							
Segment result	<u>(360,272)</u>	<u>(119,974)</u>	<u>(18,579)</u>	<u>(18,125)</u>	<u>(10,537)</u>	<u>–</u>	<u>(527,487)</u>
Unallocated corporate expenses							<u>(24,464)</u>
Loss from operations							(551,951)
Gain on partial disposal of subsidiaries							14,453
Finance costs							(12,404)
Share of result of an associate							<u>(1,501)</u>
Loss before taxation							(551,403)
Taxation							<u>124</u>
Loss before minority interests							<u>(551,279)</u>

Inter-segment sales are charged at prevailing market rate.

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

For the year ended 31st December, 2001 (Continued)

	Toll highway operation	Property sales and development	Property rental	Hotel operation	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS						
Segment assets	841,836	548,909	70,968	208,102	–	1,669,815
Interest in an associate	–	–	–	–	8,226	8,226
Unallocated corporate assets	–	–	–	–	57,166	57,166
Consolidated total assets						<u>1,735,207</u>
LIABILITIES						
Segment liabilities	(721,246)	(118,056)	(3,345)	(8,693)	–	(851,340)
Unallocated corporate liabilities	–	–	–	–	(129,477)	(129,477)
Consolidated total liabilities						<u>(980,817)</u>

OTHER INFORMATION

	Toll highway operation	Property sales and development	Property rental	Hotel operation	Other operations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	273,565	26,859	23	193	2,825	303,465
Depreciation and amortisation	–	244	33	58	1,457	1,792
Impairment and revaluation losses	360,272	103,131	19,977	25,000	–	508,380
Other non-cash expenses	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>9,925</u>	<u>9,925</u>

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

For the year ended 31st December 2000

	Toll highway operation	Property sales and development	Property rental	Hotel operation	Other operations	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External sales	–	12,500	7,176	50,018	2,654	–	72,348
Inter-segment sales	–	–	–	–	2,159	(2,159)	–
	<u>–</u>	<u>12,500</u>	<u>7,176</u>	<u>50,018</u>	<u>4,813</u>	<u>(2,159)</u>	<u>72,348</u>
Total revenue	<u>–</u>	<u>12,500</u>	<u>7,176</u>	<u>50,018</u>	<u>4,813</u>	<u>(2,159)</u>	<u>72,348</u>
RESULT							
Segment result	<u>(272,210)</u>	<u>(346,815)</u>	<u>(40,280)</u>	<u>(18,936)</u>	<u>(2,246)</u>	<u>–</u>	<u>(680,487)</u>
Unallocated corporate expenses							<u>(16,482)</u>
Loss from operations							<u>(696,969)</u>
Finance costs							<u>(6,501)</u>
Loss before taxation							<u>(703,470)</u>
Taxation							<u>1,213</u>
Loss before minority interests							<u><u>(702,257)</u></u>

Inter-segment sales are charged at prevailing market rate.

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

For the year ended 31st December, 2000 (Continued)

	Toll highway operation	Property sales and development	Property rental	Hotel operation	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS						
Segment assets	1,101,600	593,659	105,413	233,261	–	2,033,933
Interest in an associate	–	–	–	–	19,093	19,093
Unallocated corporate assets	–	–	–	–	53,482	53,482
						<u>2,106,508</u>
LIABILITIES						
Segment liabilities	(638,906)	(164,028)	(30,524)	(21,722)	–	(855,180)
Unallocated corporate liabilities	–	–	–	–	(50,467)	(50,467)
						<u>(905,647)</u>

OTHER INFORMATION

	Toll highway operation	Property sales and development	Property rental	Hotel operation	Other operations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	155,483	49,939	30	–	3,512	208,964
Depreciation and amortisation	–	544	51	41	1,029	1,665
Impairment and revaluation losses	272,210	235,356	42,474	20,000	–	570,040
Other non-cash expenses	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,772</u>	<u>1,772</u>

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

An analysis of the Group's revenue and contribution to operating results by geographical location of its customers is presented below:

	Total revenue		Contribution to operating results	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China ("PRC")	78,750	67,987	(507,915)	(675,450)
Hong Kong	40,200	4,361	(12,060)	(3,267)
Others	–	–	(7,512)	(1,770)
	<u>118,950</u>	<u>72,348</u>	<u>(527,487)</u>	<u>(680,487)</u>
Unallocated corporate expenses			<u>(24,464)</u>	<u>(16,482)</u>
Loss from operations			<u>(551,951)</u>	<u>(696,969)</u>

The following is an analysis of the carrying amount of segment assets, and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	1,667,283	2,019,286	300,640	205,451
Hong Kong	64,026	75,812	2,825	3,513
Others	3,898	11,410	–	–
	<u>1,735,207</u>	<u>2,106,508</u>	<u>303,465</u>	<u>208,964</u>

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

7. IMPAIRMENT AND REVALUATION LOSSES

Impairment and revaluation losses recognised
in respect of:

- construction in progress
- properties under/held for development
- properties under construction
- investment properties
- properties held for sale
- hotel property

2001	2000
HK\$'000	HK\$'000
360,272	272,210
28,793	155,732
63,257	53,182
19,977	42,474
11,081	26,442
25,000	20,000
508,380	570,040

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

8. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

Directors' remuneration (note 10)

Other staff costs

Retirement benefits scheme contributions

Total staff costs

Less: amount capitalised in construction in progress,
properties under construction and properties under/
held for development

Depreciation and amortisation of property, plant and equipment

Less: amount capitalised in construction in progress

Auditors' remuneration

Cost of inventories recognised

Cost of properties sold

Loss on disposal of investments in securities

Loss on disposal of property, plant and equipment

Loss on disposal of investment properties

Rentals of premises under operating leases

Unrealised loss on investments in securities

Allowance against bad and doubtful debts

and after crediting:

Dividend income from investments in securities

Gain on disposal of property, plant and equipment

Interest income

Net rental income in respect of premises after

outgoings of HK\$20,000 (2000: HK\$48,000)

2001
HK\$'000

2000
HK\$'000

4,480

2,914

34,559

21,560

2,250

1,444

41,289

25,918

(6,565)

–

34,724

25,918

1,792

1,665

(231)

(524)

1,561

1,141

1,218

812

17,641

16,842

70,300

16,000

–

474

–

789

50

–

2,790

2,474

7,512

–

2,413

–

–

225

3

–

2,899

1,864

11,542

13,150

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

9. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank and other borrowings		
– wholly repayable within five years	12,404	6,501
– not wholly repayable within five years	39,538	28,201
	<u>51,942</u>	<u>34,702</u>
Less: Amount capitalised in construction in progress	(39,538)	(28,201)
	<u>12,404</u>	<u>6,501</u>

10. DIRECTORS' REMUNERATION

	2001 HK\$'000	2000 HK\$'000
Fees		
– Independent non-executive directors	181	160
Other emoluments		
– Executive directors		
Salaries and benefits	4,263	2,754
Retirement benefits schemes contributions	36	–
	<u>4,480</u>	<u>2,914</u>

The number of directors whose remuneration falls within the bands set out below is as follows:

	No. of directors 2001	2000
Nil to HK\$1,000,000	9	15
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	–
	<u>11</u>	<u>15</u>

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

11. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group included three directors (2000: four directors) of the Company, details of whose remuneration are set out in note 10 above. The remuneration of the remaining highest paid individual(s) who is/are employees of the Group is as follows:

	2001 HK\$'000	2000 HK\$'000
Remuneration, salaries and other benefits	<u>1,718</u>	<u>831</u>

The emoluments of the individual(s) for both years were less than HK\$1,000,000.

12. TAXATION

The taxation credit for both years represents overprovision for tax in other jurisdictions in previous years.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profit in either year.

Tax in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. No provision for tax in other jurisdictions for the current year has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profits subject to tax in other jurisdictions.

Details of deferred taxation are set out in note 30.

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$393,709,000 (2000: HK\$582,836,000) and on the weighted average number of 1,244,156,281 (2000: 1,135,203,448) ordinary shares in issue during the year.

No diluted loss per share is presented for either year as there are no dilutive ordinary shares in issue.

14. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
VALUATION	
At 1st January, 2001	71,818
Disposal	(14,500)
Deficit on revaluation	(19,977)
	<u>37,341</u>
At 31st December, 2001	<u><u>37,341</u></u>

The valuation of the Group's investment properties at 31st December, 2001 was carried out by CB Richard Ellis Limited, an independent firm of qualified professional valuers, on an open market value basis. The deficit arising on revaluation of HK\$19,977,000 has been charged to the consolidated income statement for the year ended 31st December, 2001.

All the Group's investment properties are held for rental under operating leases.

The carrying value of the investment properties comprises:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Properties held under medium-term leases in Hong Kong	–	14,500
Properties held under medium-term land use rights in the PRC	37,341	57,318
	<u>37,341</u>	<u>71,818</u>
	<u><u>37,341</u></u>	<u><u>71,818</u></u>

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Properties under construction HK\$'000	Leasehold improvements HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Hotel property HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1st January, 2001	1,539,888	534,207	3,576	15,752	225,000	2,318,423
Additions	273,565	18,257	1,429	1,822	–	295,073
Disposals	–	–	–	(179)	–	(179)
Deficit on revaluation	–	–	–	–	(25,000)	(25,000)
	<u>1,813,453</u>	<u>552,464</u>	<u>5,005</u>	<u>17,395</u>	<u>200,000</u>	<u>2,588,317</u>
At 31st December, 2001	1,813,453	552,464	5,005	17,395	200,000	2,588,317
Comprising:						
At cost	1,813,453	552,464	5,005	17,395	–	2,388,317
At valuation – 2001	–	–	–	–	200,000	200,000
	<u>1,813,453</u>	<u>552,464</u>	<u>5,005</u>	<u>17,395</u>	<u>200,000</u>	<u>2,588,317</u>
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2001	642,615	149,207	1,447	12,275	–	805,544
Charge for the year	–	–	818	974	–	1,792
Impairment loss for the year	360,272	63,257	–	–	–	423,529
Eliminated on disposals	–	–	–	(154)	–	(154)
	<u>1,002,887</u>	<u>212,464</u>	<u>2,265</u>	<u>13,095</u>	<u>–</u>	<u>1,230,711</u>
At 31st December, 2001	1,002,887	212,464	2,265	13,095	–	1,230,711
NET BOOK VALUES						
At 31st December, 2001	<u>810,566</u>	<u>340,000</u>	<u>2,740</u>	<u>4,300</u>	<u>200,000</u>	<u>1,357,606</u>
At 31st December, 2000	<u>897,273</u>	<u>385,000</u>	<u>2,129</u>	<u>3,477</u>	<u>225,000</u>	<u>1,512,879</u>

15. PROPERTY, PLANT AND EQUIPMENT (*Continued*)

- (a) The construction in progress is situated in the PRC and represents the Group's interest in a toll highway under construction in Shenzhen ("Shenzhen Highway"). In view of the fact that the toll rates approved by relevant PRC government authorities were lower than their budgeted rates, the Group has recognised an impairment loss with reference to the valuation made by Grant Sherman Appraisal Limited, an independent firm of professional property valuers under a discounted cash flow method, using a discount rate of 20% and taking into consideration of the expected future cost to complete the Shenzhen Highway and of the traffic projections and studies conducted by Scott Wilson (Hong Kong) Limited, an independent traffic consultant of the Shenzhen Highway. An impairment loss of approximately HK\$360,272,000 has been identified which has been recognised in the consolidated income statement in the current year. A subsidiary of the Company has been granted the right to operate and manage the Shenzhen Highway for a period of 25 years up to 30th November, 2022.
- (b) The properties under construction are situated in the PRC, other than Hong Kong, and are held under medium-term land use rights. In view of the market conditions, the Group has recognised an impairment loss with reference to the valuation made by CB Richard Ellis Limited, an independent firm of professional property valuers, on an open market basis. An impairment loss of approximately HK\$63,257,000 has been identified which has been recognised in the consolidated income statement in the current year.
- (c) The valuation of the Group's hotel property at 31st December, 2001 was carried out by CB Richard Ellis Limited, an independent firm of professional property valuers, on an open market basis.

The hotel property is situated in the PRC and is held under medium-term land use right. A subsidiary of the Company has been granted the right to operate and manage the hotel for a period from January 1987 to January 2017, and subject to certain conditions to be fulfilled, the operating period may be extended for a further period of 20 years.

- (d) At 31st December, 2001, included in net book value of construction in progress is interest capitalised of HK\$82,778,000 (2000: HK\$43,240,000).

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

16. PROPERTIES UNDER/HELD FOR DEVELOPMENT

	THE GROUP HK\$'000
COST	
At 1st January, 2001	313,133
Development costs incurred	<u>8,392</u>
At 31st December, 2001	<u>321,525</u>
IMPAIRMENT	
At 1st January, 2001	155,732
Impairment loss for the year	<u>28,793</u>
At 31st December, 2001	<u>184,525</u>
NET BOOK VALUES	
At 31st December, 2001	<u><u>137,000</u></u>
At 31st December, 2000	<u><u>157,401</u></u>

All the properties under/held for development are situated in the PRC, other than Hong Kong, under the following terms:

	2001 HK\$'000	2000 HK\$'000
Medium-term land use rights	111,000	131,086
Long-term land use rights	<u>26,000</u>	<u>26,315</u>
	<u><u>137,000</u></u>	<u><u>157,401</u></u>

In view of the market conditions, the Group has recognised impairment losses with reference to the valuation made by CB Richard Ellis Limited and RHL Appraisal Limited, both of which are independent firms of professional property valuers, on an open market basis. An impairment loss of approximately HK\$28,793,000 has been identified which has been recognised in the consolidated income statement in the current year.

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	3,219,175	3,219,175
Amounts due from subsidiaries	260,033	133,171
	3,479,208	3,352,346
Less : Impairment loss	(2,759,727)	(2,379,727)
	719,481	972,619

During the year, the directors of the Company reviewed the carrying amounts of the assets of the Company in light of the current market condition, the directors identified impairment and revaluation losses on properties held by the subsidiaries with reference to professional valuation report and losses arising on disposal of approximately HK\$380 million. Accordingly, the whole amount has been recognised in the consolidated income statement as impairment losses for the year.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts are unlikely to be repaid within one year and are therefore shown as non-current.

Details of the Company's principal subsidiaries as at 31st December, 2001 are set out in note 42.

18. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	8,226	19,093

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

18. INTEREST IN AN ASSOCIATE (Continued)

Details of the associate at 31st December, 2001 are as follows:

Name of associate	Place of incorporation	Proportional of nominal value of issued capital held indirectly by the Company	Principal activity
Wintime Property Developments Limited ("Wintime")	British Virgin Islands ("BVI")	35%	Property investment in Hong Kong

Wintime, through a wholly-owned subsidiary, had interest in certain units of properties (the "Assigned Properties") situated in Hong Kong. Pursuant to an agreement dated 5th May, 2000 entered among, inter alia, Wintime, Lead Victory Investments Limited ("Lead Victory"), a wholly-owned subsidiary of the Company, and Continental Property Limited ("Continental"), a shareholder of Wintime, Wintime assigned the Assigned Properties to Lead Victory and Continental respectively and shall distribute the sales proceeds, rents, profits and monies in respect of the Assigned Properties according to the terms of the agreement.

19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Other investments outside of Hong Kong		
Listed equity security	3,295	10,807
Unlisted equity security	81	—
Unlisted debt security	603	603
	<u>3,979</u>	<u>11,410</u>
Total and reported as non-current	<u>3,979</u>	<u>11,410</u>
Market value of listed security	<u>3,295</u>	<u>10,807</u>

The carrying value of the listed equity security at 31st December, 2001 represents a 8.97% interest in Austindo Resources Corporation N. L., a company incorporated in Australia and listed on the Australian Stock Exchange.

19. INVESTMENTS IN SECURITIES (Continued)

The carrying value of the unlisted debt security at 31st December, 2001 represents a convertible note issued by Austindo Resources Corporation N. L. ("Austindo Convertible Note"). The Austindo Convertible Note is unsecured, interest free and entitles the holder at any time after 27th February, 1998 up to and including 28th February, 2003 to convert the principal amount of the Austindo Convertible Note into shares of Austindo Resources Corporation N. L. at A\$0.11 per share. If the Austindo Convertible Note is not converted by 28th February, 2003, it will be redeemed by the note issuer in cash on the following business day after the expiry date.

20. LOANS FROM / TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

THE GROUP

The amounts are unsecured, interest-free and will not be repaid within one year and are therefore shown as non-current.

21. PROPERTIES HELD FOR SALE

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
At 1st January	31,081	30,515
Acquired on acquisition of subsidiaries	83,180	–
Transfer from properties under/held for development	–	43,008
Disposals	(70,300)	(16,000)
Impairment loss	(11,081)	(26,442)
	<u>32,880</u>	<u>31,081</u>
At 31st December, at net realisable value		

The carrying value of properties held for sale, all situated in the PRC, comprises:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Properties held under long-term land use rights	28,000	22,800
Properties held under medium-term land use rights	4,880	8,281
	<u>32,880</u>	<u>31,081</u>

21. PROPERTIES HELD FOR SALE (Continued)

In respect of properties held for sale with a carrying amount of approximately HK\$28,000,000, the transfer of title to the land use right and property ownership has not yet been completed at the balance sheet date. The Group has paid the full amount of the consideration in accordance with the sale and purchase agreement and in the opinion of the directors, such transfer will be completed in due course.

In view of the market conditions, the Group has recognised an impairment loss with reference to the valuation made by CB Richard Ellis Limited and RHL Appraisal Limited, both of which are independent firms of professional property valuers, on an open market basis. An impairment loss of approximately HK\$11,081,000 has been identified which has been recognised in the consolidated income statement in the current year.

22. LOAN RECEIVABLE FROM AN INVESTEE COMPANY

THE GROUP

The loan is unsecured and repayable on demand. Except for an amount of approximately HK\$11,096,000 which is interest bearing at prevailing market rate, the remaining amount is interest free.

23. TRADE AND OTHER RECEIVABLES

The Group has a policy of agreeing credit terms with each of its trade customers in the light of the individual customer's merit.

Included in trade and other receivables are trade receivables of HK\$2,610,000 (2000: HK\$2,821,000) and their aging analysis is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 to 90 days	1,992	2,122
91 to 180 days	618	81
Over 180 days	-	618
	<u>2,610</u>	<u>2,821</u>

24. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$2,105,000 (2000: HK\$2,062,000), all of which are aged within 90 days.

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

25. SECURED BANK BORROWINGS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Bank loans	543,071	586,896
Repayable as follows:		
Within one year	28,090	71,915
Over five years	514,981	514,981
	543,071	586,896
Less: Amount due within one year included under current liabilities	(28,090)	(71,915)
Amount due after one year	514,981	514,981

26. SHARE CAPITAL

	Number of shares	Value HK\$'000
<i>Authorised</i>		
Ordinary shares of US\$0.02 each		
Balance at 31st December, 2000 and 31st December, 2001	1,900,000,000	296,400
<i>Issued and fully paid</i>		
Ordinary shares of US\$0.02 each		
At 1st January, 2000	1,047,419,295	163,397
Issue of new shares	189,000,000	29,484
Repurchase of shares	(100,000,000)	(15,600)
At 31st December, 2000	1,136,419,295	177,281
Issue of new shares	226,000,000	35,256
At 31st December, 2001	1,362,419,295	212,537

26. SHARE CAPITAL (Continued)

The movements in the ordinary share capital for the year ended 31st December, 2001 is as follows:

- 226,000,000 existing ordinary shares of the Company of US\$0.02 each held by CSH were placed to independent professional investors at a price of HK\$0.40 per share on 10th July, 2001 and 226,000,000 new ordinary shares of the Company were issued and allotted to CSH at HK\$0.40 per share on 11th July, 2001 under a placing and a subscription agreement entered into on 4th July, 2001. These shares were issued under the general mandate granted to the directors of the Company on 31st May, 2001. The issue price of HK\$0.40 represented a discount of approximately 14.9% to the closing price of HK\$0.47 on 4th July, 2001. The net proceeds of approximately HK\$88 million were used for the development costs of projects in the PRC, repayment of borrowings, and general working capital.

All the shares issued during the year rank *pari passu* in all respects with the then existing ordinary shares.

The movements in the ordinary share capital for the year ended 31st December, 2000 were as follows:

- 89,000,000 ordinary shares of the Company of US\$0.02 each were issued and allotted to institutional and/or professional investors at a price of HK\$0.198 per share, representing a discount of approximately 7.04% on the closing price of HK\$0.213 per share on 2nd December, 1999, under a private share placement. These shares were issued under the general mandate granted to the directors of the Company on 25th June, 1999. The placing was completed on 6th January, 2000. The net proceeds of approximately HK\$17 million were used for repayment of loans from financial institutions and settlement of liabilities of other creditors.
- Pursuant to a resolution passed at a special general meeting on 27th June, 2000, the Company issued and allotted 100,000,000 ordinary shares of US\$0.02 each to PKU Cyberport Limited on 7th July, 2000 at a price of HK\$0.90 per share (the "Consideration Shares"), as partial consideration for the acquisition of the entire issued share capital of Osgood Investment Limited (the "Acquisition") at an aggregate consideration of HK\$300,000,000. The balance of the consideration for the Acquisition was settled by the issue of a convertible note at an aggregate principal amount of HK\$210,000,000, convertible into the shares of the Company at an initial conversion price of HK\$0.90 each.

As detailed in the announcement dated 24th November, 2000, the Company and PKU Cyberport Limited entered into a termination agreement to unwind the Acquisition. Accordingly, the Consideration Shares were cancelled by way of a repurchase by the Company from PKU Cyberport Limited at a price of HK\$0.90 per share on 28th December, 2000 and the convertible note was cancelled by way of a deed of release on 23rd November, 2000. The Consideration Shares were cancelled upon repurchase.

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

27. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	Exchange fluctuation reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE GROUP						
At 1st January, 2000	22,502	35,350	1,843,324	929	(561,093)	1,341,012
Exchange adjustment arising from translation of financial statements of foreign subsidiaries	-	-	-	605	-	605
Premium arising on new issue of shares	78,138	-	-	-	-	78,138
Share issue expenses	(440)	-	-	-	-	(440)
Repurchase of ordinary shares	(74,400)	-	-	-	-	(74,400)
Capital reserve arising on acquisition of subsidiaries	-	88	-	-	-	88
Net loss for the year	-	-	-	-	(582,836)	(582,836)
At 31st December, 2000	25,800	35,438	1,843,324	1,534	(1,143,929)	762,167
Exchange adjustment arising from translation of financial statements of foreign subsidiaries	-	-	-	1,010	-	1,010
Premium arising on new issue of shares	55,144	-	-	-	-	55,144
Share issue expenses	(2,149)	-	-	-	-	(2,149)
Net loss for the year	-	-	-	-	(393,709)	(393,709)
At 31st December, 2001	<u>78,795</u>	<u>35,438</u>	<u>1,843,324</u>	<u>2,544</u>	<u>(1,537,638)</u>	<u>422,463</u>
Attributable to:						
The Company and its subsidiaries	78,795	35,438	1,843,324	2,544	(1,536,137)	423,964
Associate	-	-	-	-	(1,501)	(1,501)
	<u>78,795</u>	<u>35,438</u>	<u>1,843,324</u>	<u>2,544</u>	<u>(1,537,638)</u>	<u>422,463</u>
THE COMPANY						
At 1st January, 2000	22,502	945	3,088,504	-	29,001	3,140,952
Premium arising on new issue of shares	78,138	-	-	-	-	78,138
Share issue expenses	(440)	-	-	-	-	(440)
Repurchase of ordinary shares	(74,400)	-	-	-	-	(74,400)
Net loss for the year	-	-	-	-	(2,383,887)	(2,383,887)
At 31st December, 2000	25,800	945	3,088,504	-	(2,354,886)	760,363
Premium arising on new issue of shares	55,144	-	-	-	-	55,144
Share issue expenses	(2,149)	-	-	-	-	(2,149)
Net loss for the year	-	-	-	-	(391,054)	(391,054)
At 31st December, 2001	<u>78,795</u>	<u>945</u>	<u>3,088,504</u>	<u>-</u>	<u>(2,745,940)</u>	<u>422,304</u>

27. RESERVES (Continued)

Notes:

- (a) Capital reserve includes HK\$945,000 (2000: HK\$945,000) in respect of capital redemption reserve fund. The remaining balance mainly represents reserve arising from the repurchase of shares of the subsidiary during the group reorganisation in 1995 of approximately HK\$34,405,000 and reserve arising on acquisition of subsidiaries in 2000 of approximately HK\$88,000.
- (b) The contributed surplus of the Group represents the difference between the nominal amount of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company under a group reorganisation in 1995. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

At 31st December, 2001, the reserve available for distribution to shareholders is HK\$352,564,000 (2000: HK\$733,618,000) which represents the aggregate of contributed surplus of HK\$3,088,504,000 (2000: HK\$3,088,504,000) net off deficit of HK\$2,735,940,000 (2000: HK\$2,354,886,000).

28. DEPOSITS RECEIVED

THE GROUP

According to two pre-sale agreements dated 7th September, 1994, certain properties of the Group were pre-sold at an aggregate consideration of RMB818,491,770 and 10% of the sale proceeds were received and classified as deposits received in the financial statements. The amounts will be taken up in the income statement on completion of the sale and purchase agreements.

In the opinion of the directors, the completion is unlikely to be taken place within one year and the amounts are therefore shown in the balance sheet as non-current.

29. AMOUNTS DUE TO FELLOW SUBSIDIARIES

THE GROUP AND THE COMPANY

The amounts are unsecured, bear interest at prevailing market rates and are repayable before May 2003. According to the repayment terms, the amounts are classified as non-current.

30. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation asset not recognised in the financial statements are as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Difference between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	(118)	88
Unutilised tax losses	27,061	18,603
Impairment and revaluation losses on properties	11,333	10,857
	38,276	29,548

The deferred taxation asset is not recognised because it is uncertain whether the tax benefit will be realised in the foreseeable future.

The major components of the deferred taxation (charge) credit not recognised for the year are as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Differences between depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	(206)	280
Tax losses arising	8,458	2,719
Impairment and revaluation losses on properties	476	9,250
	8,728	12,249

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

31. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Loss before taxation	(551,403)	(703,470)
Share of result of an associate	1,501	–
Interest expenses	12,404	6,501
Interest income	(2,899)	(1,864)
Dividend income	–	(225)
Depreciation	1,561	1,141
Deficit arising on revaluation of hotel property	25,000	20,000
Deficit arising on revaluation of investment properties	19,977	42,474
Impairment loss recognised in respect of properties held for sale	11,081	26,442
Impairment loss recognised in respect of construction in progress	360,272	272,210
Impairment loss recognised in respect of properties under construction	63,257	53,182
Impairment loss recognised in respect of properties under/held for development	28,793	155,732
Allowance against advances to contractors	–	106,222
Gain on partial disposal of subsidiaries	(14,453)	–
Loss on disposal of investment properties	50	–
(Gain) loss on disposal of property, plant and equipment	(3)	789
Unrealised loss on investments in securities	7,512	–
Allowance against bad and doubtful debts	2,413	–
Loss on disposal of investments in securities	–	474
Exchange loss	–	1,772
Decrease in properties held for sale	70,300	16,000
Decrease in inventories	139	201
Increase in trade and other receivables	(5,884)	(70,241)
Increase (decrease) in trade and other payables	21,209	(36,527)
(Decrease) increase in deposits received	(3,639)	2,057
Net cash inflow (outflow) from operating activities	<u>47,188</u>	<u>(107,130)</u>

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

32. PURCHASE OF SUBSIDIARIES

During the year, the Group acquired 100% interest in Silvercomb Property Ltd. for cash consideration of approximately HK\$106 million. This acquisition has been accounted for by the acquisition method of accounting.

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Net assets acquired:		
Property under development	-	26,000
Investment in an associate	-	19,093
Investments in securities	81	-
Loan receivable from an investee company	44,201	-
Properties held for sale	83,180	-
Trade and other receivables	4,528	-
Trade and other payables	(2,990)	(5)
Bank loans	(23,000)	-
	106,000	45,088
Capital reserve arising on acquisition	-	(88)
	106,000	45,000
Satisfied by:		
Cash consideration paid	106,000	45,000
Analysis of net outflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Consideration paid	106,000	45,000

The subsidiaries acquired during the year contributed cash inflow of HK\$37,890,000 to the Group's net operating cash inflow and paid HK\$23,000,000 in respect of financing activities.

The subsidiaries acquired during the year contributed HK\$36,000,000 to the Group's turnover and loss of HK\$11,849,000 to the Group's loss from operations.

The subsidiaries acquired during the year ended 31st December, 2000 had no significant impact on the cash flows, turnover and results of the Group.

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Amounts due to fellow subsidiaries HK\$'000	Bank borrowings HK\$'000	Minority interests HK\$'000	Loans from minority shareholders HK\$'000
Balance at 1st January, 2000	185,899	–	463,765	380,834	22,963
Proceeds from issue of shares, net of expenses	17,182	–	–	–	–
New loans raised	–	35,000	154,494	–	–
Repayment of loans	–	–	(31,363)	–	–
Loss attributable to minority shareholders of subsidiaries	–	–	–	(119,421)	–
Contribution from minority shareholder of a subsidiary	–	–	–	–	3,518
Balance at 31st December, 2000	203,081	35,000	586,896	261,413	26,481
Proceeds from issue of shares, net of expenses	88,251	–	–	–	–
New loans raised	–	172,773	–	–	–
Repayment of loans	–	(91,212)	(66,825)	–	–
Purchase of subsidiaries	–	–	23,000	–	–
Partial disposal of subsidiaries	–	–	–	15,547	–
Loss attributable to minority shareholders of subsidiaries	–	–	–	(157,570)	–
Contribution from minority shareholder of a subsidiary	–	–	–	–	16,998
Balance at 31st December, 2001	<u>291,332</u>	<u>116,561</u>	<u>543,071</u>	<u>119,390</u>	<u>43,479</u>

34. MAJOR NON-CASH TRANSACTION

During the year, the major non-cash transaction being addition to construction in progress of HK\$188,331,000 was transferred from advances to contractors.

35. CAPITAL COMMITMENTS

Capital expenditure contracted for but not provided in the financial statements relating to:

- properties under/held for development
- properties under construction
- construction in progress

THE GROUP	
2001 HK\$'000	2000 HK\$'000
26,902	23,640
129,393	227,150
–	173,849
<u>156,295</u>	<u>424,639</u>

36. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group made minimum lease payments of approximately HK\$2,790,000 (2000: HK\$2,474,000) under operating leases during the year in respect of office properties.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

- Within one year
- In the second to fifth year inclusive

THE GROUP	
2001 HK\$'000	2000 HK\$'000
1,999	48
318	–
<u>2,317</u>	<u>48</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years.

36. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned during the year was approximately HK\$11,562,000 (2000: HK\$13,198,000). All of the properties held have committed tenants for the next three to seven years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within one year	9,479	11,413
In the second to fifth years inclusive	18,633	18,936
Over five years	994	2,775
	<u>29,106</u>	<u>33,124</u>

37. CONTINGENT LIABILITIES

Guarantees

For the year ended 31st December, 2001, the Company has not given any guarantees. As at 31st December, 2000, the Company had given guarantees to banks in respect of credit facilities granted to subsidiaries amounting to HK\$48,700,000. The extent of such facilities utilised by subsidiaries amounted to approximately HK\$29,780,000 as at 31st December, 2000.

Litigation

- (a) In August 1999, the architect of Paul Y. Plaza (formerly named as Jiangnan Centre) initiated legal proceedings against Eventic Limited ("Eventic"), a wholly owned subsidiary of the Company in respect of claim for payment of service fees and other expenses of HK\$0.6 million and HK\$6.6 million respectively.

Eventic has vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided.

In view of the counterclaim made by Eventic, the architect amended its total claims to HK\$7.7 million. At the date of this report, the proceedings are still ongoing. After taking into consideration the advice of the Group's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect to the Group.

37. CONTINGENT LIABILITIES (*Continued*)

Litigation (*Continued*)

- (b) In July 2001, Huizhou World Express Property Ltd. ("Huizhou World Express"), an indirect non-wholly owned subsidiary of the Company as the developer, initiated legal proceedings against the Huizhou Municipal Government of the Guangdong Province, the PRC, in its capacity as the guarantor of Huizhou Jia Cheng Group Co., Ltd. ("Huizhou Jia Cheng"), the main contractor in the construction of Hongkong Macau Square, under a guarantee letter dated 7th September, 1994 executed by the Huizhou Municipal Government in favour of Huizhou World Express. The amount claimed by Huizhou World Express was RMB243.6 million, being the construction costs of RMB167.5 million paid by Huizhou World Express to Huizhou Jia Cheng together with the damages for the amount of RMB76.1 million.

As at date of this report, Huizhou World Express is waiting for the hearing of the case. At this stage, the outcome cannot be predicted with certainty. As the total construction costs of Hongkong Macau Square has already been written off, the Directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Huizhou World Express.

- (c) In November 2001, the purchasers (the "Purchasers") of certain properties of Hongkong Macau Square, Huizhou according to the pre-sale agreements dated 7th September, 1994 initiated legal proceedings against Huizhou World Express for failure to hand over the properties of Hongkong Macau Square to the Purchasers. The amounts claimed by the Purchasers were approximately HK\$76.6 million, being the pre-sale deposit together with damages of RMB64.2 million and relevant legal expenses.

In January 2002, Huizhou World Express filed in its defences alleging that in accordance with the terms of the above-mentioned agreements, any disputes between the contractual parties should be resolved by means of arbitration. As at the date of the report, the Intermediate People's Court of Huizhou, Guangdong Province is still considering the cases. At this stage, the outcome cannot be predicted with certainty and no further provision has been made in the financial statements.

38. PLEDGE OF ASSETS

At 31st December, 2001 and 2000, the Group has pledged the following assets for:

(a) Bank borrowings – due after one year

- Investment properties with a carrying value of HK\$13,750,000 (2000: HK\$32,130,000).
- Certain part of a hotel property with a carrying value of HK\$36,026,000 (2000: HK\$40,529,000).
- In 2000, Fameluxe Investment Limited ("Fameluxe"), a wholly-owned subsidiary of the Company issued two debentures in favour of a bank by way of creating a first floating charge on its entire interest in Shenzhen Longchen Xinyuan Industrial Co., Ltd., ("Longchen Xinyuan"), a subsidiary of the Company. The debentures were released upon repayment of the bank borrowings during the year.
- Longchen Xinyuan pledged its right to receive toll fee income to a bank secure the credit facilities for the year ended 31st December, 2000 and 2001.

(b) Bank borrowings – due within one year

- Bank deposits of HK\$8,427,000 (2000: HK\$8,427,000).

39. RETIREMENT BENEFITS SCHEME

The Company and Ming Hung (Holdings) Limited, a wholly-owned subsidiary in Hong Kong, participate in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year under review, the total amount contributed by the Group to the scheme and charged to the income statement was approximately HK\$510,000 (2000: HK\$23,000) and no contributions were forfeited.

The employees in the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

40. POST BALANCE SHEET EVENTS

On 7th February, 2002, the Company announced that the agreement entered by a wholly-owned subsidiary of the Company on 13th July, 2001 regarding the acquisition of certain properties in Beijing, the PRC, at an aggregate consideration of approximately HK\$188 million has become null and void as the results of the due diligence investigation of the properties were not up to the reasonable satisfaction to that subsidiary.

On the same date, the Company also announced that a non-wholly owned subsidiary of the Company renounced the options agreed to grant to that subsidiary on 13th July, 2001 to acquire the development rights for up to 600,000 square meters, being the intended total gross floor area of Phase III of Jiulong Garden in Beijing, the PRC, at a consideration of RMB1,700 per square meter due to non-fulfilment of the condition set out in the agreement in relation to the options.

41. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had interest expenses of approximately HK\$9,876,000 (2000: HK\$Nil) to CSH. The interest charge was determined by both parties with reference to the prevailing market rate.

Details of the balances with related companies at the balance sheet date are disclosed in notes 17 and 29 to the financial statements.

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31st December, 2001 are as follows:

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
A-One Worldwide Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
Alpha Sheen Development Limited	HK\$100	Hong Kong	–	100	Property investment, PRC
Allied Glory Investment Limited ("Allied Glory")	HK\$2	Hong Kong	–	82	Investment holding, Hong Kong
Best Glory Limited ("Best Glory")	HK\$2	Hong Kong	–	70	Investment holding, Hong Kong
Bremer Assets Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
Chang Jiang Resources Co. Ltd.	US\$1	BVI	–	100	Investment holding, Hong Kong
China Industrial Investment Corporation Limited	HK\$20	Hong Kong	–	100	Investment holding, Hong Kong
China-HK International Finance Limited	HK\$2	Hong Kong	–	100	Financial services, Hong Kong
China-HK International Securities Limited	HK\$26,800,000	Hong Kong	–	100	Investment holding, Hong Kong

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

42. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
China Land Group Management Limited	HK\$2	Hong Kong	–	100	Management services, Hong Kong
China Land Holdings Limited	US\$1	BVI	100	–	Investment holding, Hong Kong
China Land (HK) Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
China Land (PRC) Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
Dearing Limited	HK\$2	Hong Kong	–	100	Property holding, Hong Kong
Dionysus Investments Limited	US\$10	BVI	–	70	Investment holding, Hong Kong
Eastar Limited	HK\$2	Hong Kong	–	100	Investment holding, Hong Kong
Eventic Limited	HK\$2	Hong Kong	–	100	Investment holding, Hong Kong
Fairmost Limited	HK\$2	Hong Kong	–	100	Investment holding, Hong Kong
Fameluxe Investment Limited	HK\$10,000	Hong Kong	–	100	Investment holding, Hong Kong

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

42. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
FastGain Worldwide Limited	US\$100	BVI	–	91	Investment holding, Hong Kong
Finescene Limited	HK\$2	Hong Kong	–	100	Investment holding, Hong Kong
Get Shing Limited	HK\$2	Hong Kong	–	100	Investment holding, Hong Kong
Get Sun Limited	HK\$2	Hong Kong	–	100	Investment holding, Hong Kong
Gladly Development Limited ("Gladly")	HK\$2	Hong Kong	–	70	Investment holding, Hong Kong
Rosedale Hotel Guangzhou Co., Ltd. (formerly known as Guangzhou Jiang Nan Hotel Co., Ltd.) ("Rosedale Hotel") (Notes 1 & 3)	HK\$89,700,000	PRC	–	81	Hotel operation, PRC
Guang Zhou Jiang Nan Property Co., Ltd. (Note 1)	HK\$68,000,000	PRC	–	75	Property development, PRC
Guilin Huei-Shan Real Estate Company Limited (Note 2)	HK\$4,702,848	PRC	–	97	Property development, PRC

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

42. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
Guilin Yi-Del Real Estate Company Limited (Note 2)	HK\$3,578,380	PRC	–	97	Property development, PRC
Guilin You-Chen Real Estate Company Limited (Note 2)	HK\$7,831,666	PRC	–	97	Property development, PRC
Guilin You-Xin Real Estate Company Limited (Note 2)	HK\$10,873,532	PRC	–	97	Property development, PRC
Guilin Zhi-Xian Real Estate Company Limited (Note 2)	HK\$5,277,181	PRC	–	97	Property development, PRC
HMH China Investments Limited	CAD\$1,152,913	Bermuda	–	82	Investment holding, Canada
Hongkong Macau (China) Limited	HK\$200,000,000	Hong Kong	–	100	China Investment, Hong Kong
Hongkong Macau (International) BVI Limited	US\$10	BVI	100	–	Investment holding, Hong Kong
Hongkong Macau (Nominees) Limited	HK\$2	Hong Kong	–	100	Nominee services, Hong Kong

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

42. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly %	Indirectly %	
Huizhou Best Glory Property Ltd. ("Huizhou Best Glory") (Notes 1 & 4)	HK\$31,878,000	PRC	–	70	Property development, PRC
Huizhou Gladly Property Ltd. ("Huizhou Gladly") (Notes 1 & 4)	HK\$11,020,000	PRC	–	70	Property development, PRC
Huizhou World Express Property Ltd. ("Huizhou World Express") (Notes 1 & 4)	HK\$109,200,000	PRC	–	70	Property development, PRC
Lead Victory Investments Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
Lucky Million Investments Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
Meiner Investment Limited	HK\$1,000	Hong Kong	–	95	Investment holding, Hong Kong
Ming Hung (Holdings) Limited	HK\$1,591,158,590	Hong Kong	–	100	Investment holding, Hong Kong
Multi-Million Assets Limited	US\$1	BVI	–	82	Investment holding, Hong Kong

Notes TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

42. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Issued and fully paid ordinary share capital/registered capital	Place of incorporation/registration	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities and place of operation
			Directly	Indirectly	
			%	%	
Ocean City Holdings Limited	US\$1	BVI	–	100	Property investment, Hong Kong
Pearlbond Properties Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
Shenzhen Longchen Xinyuan Industrial Co., Ltd. (Note 2)	RMB100,000,000	PRC	–	60	Construction and operation of a toll highway, PRC
Shenzhen SEZ Development Centre Co., Ltd. (Note 1)	HK\$290,000,000	PRC	–	86	Development, holding and trading of properties, PRC
Silvercomb Property Ltd.	US\$1	BVI	–	100	Investment holding, Hong Kong
Tenways Investments Limited	US\$1	BVI	–	100	Investment holding, Hong Kong
World Express Limited ("World Express")	HK\$2	Hong Kong	–	70	Investment holding, Hong Kong
Yetwide Investments Limited	HK\$2	Hong Kong	–	100	Property development, PRC

42. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

1. This is a PRC Sino-foreign co-operative joint venture.
2. This is a PRC Sino-foreign equity joint venture.
3. Allied Glory is entitled to recoup its total investment (including capital and interest) from the after-tax earnings of Rosedale Hotel before any amounts are distributed. Thereafter, the after-tax earnings of Rosedale Hotel are to be distributed as 80% and 20% to Allied Glory and the another joint venture partner respectively.
4. Best Glory, Gladly and World Express are entitled to recoup their total investments from the after-tax earnings of Huizhou Best Glory, Huizhou Gladly and Huizhou World Express respectively before any amounts are distributed. Thereafter, the after-tax earnings of Huizhou Best Glory, Huizhou Gladly and Huizhou World Express are to be distributed as 90% to Best Glory, Gladly and World Express respectively and 10% to the other joint venture partners respectively.

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

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

43. COMPARATIVE FIGURES

For the year ended 31st December, 2000, other operating expenses related to operations other than in Hong Kong of HK\$25,156,000 were included in administrative expenses, and consequently, the comparative figure in the current year's income statement is restated to reflect a more proper presentation.