

Notes to the Financial Statements - Continued

FOR THE YEAR ENDED 31ST JANUARY, 2002

21. SHARE CAPITAL

	Number of shares		Share capital	
	2002	2001	2002	2001
			HK\$	HK\$
Authorised:				
Ordinary shares of HK\$1.00 each				
At beginning of the year	190,903,285	190,903,285	190,903,285	190,903,285
Conversion of preference shares into ordinary shares	6,064,476	-	6,064,476	-
At end of the year	<u>196,967,761</u>	<u>190,903,285</u>	<u>196,967,761</u>	<u>190,903,285</u>
5% convertible preference shares of HK\$1.00 each				
At beginning of the year	9,096,715	9,096,715	9,096,715	9,096,715
Conversion of preference shares into ordinary shares	(6,064,476)	-	(6,064,476)	-
At end of the year	<u>3,032,239</u>	<u>9,096,715</u>	<u>3,032,239</u>	<u>9,096,715</u>
	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$1.00 each				
At beginning of the year	80,076,923	80,076,923	80,076,923	80,076,923
Conversion of preference shares into ordinary shares	6,064,476	-	6,064,476	-
At end of the year	<u>86,141,399</u>	<u>80,076,923</u>	<u>86,141,399</u>	<u>80,076,923</u>
5% convertible preference shares of HK\$1.00 each				
At beginning of the year	9,096,715	9,096,715	9,096,715	9,096,715
Conversion of preference shares into ordinary shares	(6,064,476)	-	(6,064,476)	-
At end of the year	<u>3,032,239</u>	<u>9,096,715</u>	<u>3,032,239</u>	<u>9,096,715</u>
	<u>89,173,638</u>	<u>89,173,638</u>	<u>89,173,638</u>	<u>89,173,638</u>

The holders of the preference shares are not entitled to vote at the general meetings of the Company.

The preference shares are entitled to a cumulative dividend and rank in priority to the ordinary shares in the Company as to dividends and return of capital. No dividend has been accrued for the preference shares in both years.

Notes to the Financial Statements - Continued

FOR THE YEAR ENDED 31ST JANUARY, 2002

21. SHARE CAPITAL - Continued

The preference shares are convertible into ordinary shares of the Company as follows:

- (i) no more than 3,032,238 of the preference shares are convertible after the date of expiry of six months from 15th September, 1999 (the "Issue Date") and prior to the day immediately preceding the corresponding date in the eighteenth month after the Issue Date;
- (ii) no more than 6,064,476 of the preference shares in aggregate are convertible prior to the day immediately preceding the corresponding date in the thirtieth month after the Issue Date;
- (iii) 6,064,476 preference shares were converted into 6,064,476 ordinary shares of HK\$1.00 each in August 2001;
- (iv) the remaining preference shares which have not been converted by the date of expiry of thirty months from the Issue Date are convertible in full.

22. SHARE PREMIUM AND RESERVES

	Share premium account HK\$	Investment property revaluation reserve HK\$	Accumulated losses HK\$	Total HK\$
THE GROUP				
At 1st February, 2000	197,803,247	350,000	(226,717,134)	(28,563,887)
Revaluation deficit	-	(350,000)	-	(350,000)
Net loss for the year	-	-	(8,422,328)	(8,422,328)
At 31st January, 2001	197,803,247	-	(235,139,462)	(37,336,215)
Net loss for the year	-	-	(7,977,255)	(7,977,255)
At 31st January, 2002	197,803,247	-	(243,116,717)	(45,313,470)
THE COMPANY				
At 1st February, 2000	197,803,247	350,000	(237,581,076)	(39,427,829)
Revaluation deficit	-	(350,000)	-	(350,000)
Net loss for the year	-	-	(3,106,757)	(3,106,757)
At 31st January, 2001	197,803,247	-	(240,687,833)	(42,884,586)
Net loss for the year	-	-	(8,602,085)	(8,602,085)
At 31st January, 2002	197,803,247	-	(249,289,918)	(51,486,671)

The accumulated losses of the Group included HK\$5,600,866 (2001: HK\$426,747) attributable to its associates.

At each of 31st January, 2002 and 2001, the Company has no reserves available for distribution to shareholders.

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FOR THE YEAR ENDED 31ST JANUARY, 2002

23. DEFERRED TAXATION

A deferred tax asset of approximately HK\$1,048,000 (2001: HK\$820,000) of the Group and the Company has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future. The deferred tax credit not recognised for the year amounted to approximately HK\$228,000 (2001: HK\$196,000).

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

	2002 HK\$	2001 HK\$
Loss before taxation	(7,905,313)	(9,544,219)
Share of results of associates	5,174,119	243,896
Depreciation	2,468	3,056
Interest income	(112,483)	(184,224)
Interest expenses	587,590	769,819
Deficit on revaluation of investment properties	1,720,000	800,000
Allowance for other receivables	-	5,500,000
Decrease in properties held for sale	3,243,407	2,584,741
Increase in sundry receivables	(247,787)	(41,089)
Decrease in sundry payables	(948,704)	(430,976)
Net cash inflow (outflow) from operating activities	<u>1,513,297</u>	<u>(298,996)</u>

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans HK\$	Shareholder's loan HK\$
Balance at 1st February, 2000	6,991,728	2,175,253
Repayment of loans	(79,992)	(1,973,626)
Balance at 31st January, 2001	<u>6,911,736</u>	<u>201,627</u>
Repayment of loans	(152,488)	-
New loan raised	-	214,943
Balance at 31st January, 2002	<u>6,759,248</u>	<u>416,570</u>

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FOR THE YEAR ENDED 31ST JANUARY, 2002

26. OPERATING LEASE COMMITMENT

Property rental income earned during the year was HK\$380,500 (2001: HK\$412,000). The properties are expected to generate rental yields on approximately 5% on an ongoing basis.

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

	2002 HK\$	2001 HK\$
Within one year	348,000	237,000
Two to five years	228,000	-
	<u>576,000</u>	<u>237,000</u>

27. PENDING LITIGATION

In March 1995, Ka Fai terminated its joint venture agreement for the development of Phases II to V of its Lisboa Garden Project (the "Project") jointly with Lune Kin Investment and Development Company Limited ("Lune Kin") as a result of Lune Kin having breached certain terms of the aforesaid joint venture agreement.

On 2nd August, 1995, Ka Fai received from Lune Kin an injunction order issued through the Court of Macau prohibiting Ka Fai from disposing of any of the properties within the Project. Subsequently, on 14th August, 1995, Ka Fai made an appeal to the Court of Macau to set aside the aforesaid injunction order.

The Court of First Instance of Macau SAR had issued the sentence in March 2001 and the release of the injunction order was granted. Although Lune Kin has appealed to the Court of Second Instance of Macau SAR, based on the advice of legal counsel, the directors are of the opinion that the outcome will be in favour of Ka Fai.

In 1995, Lune Kin and its related company have filed claims against Ka Fai in connection with the Project in the sum of approximately HK\$63 million. Based on the advice of legal counsel, the directors are of the opinion that the Lune Kin's claim is without foundation. Accordingly, the directors consider that the conclusion of this matter will not give rise to any additional obligation for the Group.

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FOR THE YEAR ENDED 31ST JANUARY, 2002

28. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2002 HK\$	2001 HK\$
Rental income from related company	240,000	-
Sales of properties to certain directors and associates of directors	3,625,000	-

The above transactions were carried out at market price.

In addition, the Group also has a balance with a shareholder, the details of which are set out in note 20.