
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this prospectus, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, together with copies of the documents referred to in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix IV to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus, together with a copy of the application form, has been filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda (as amended). The Securities and Futures Commission, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Dealings in the shares of Winfoong International Limited may be settled through the Central Clearing and Settlement System ("CCASS") and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares (as defined herein) on The Stock Exchange of Hong Kong Limited, the Offer Shares will be accepted as eligible securities by Hong Kong Securities Clearing Company Limited ("Hongkong Clearing") for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares or such other date as may be determined by Hongkong Clearing. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange of Hong Kong Limited and Hongkong Clearing take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.



WINFOONG INTERNATIONAL LIMITED

(榮 豐 國 際 有 限 公 司)*

(Incorporated in Bermuda with limited liability)

ACQUISITION OF PROPERTY INTEREST AND

OPEN OFFER OF 747,416,993 OFFER SHARES OF HK\$0.05 EACH TO QUALIFYING SHAREHOLDERS AT HK\$0.195 PER OFFER SHARE IN THE PROPORTION OF ONE OFFER SHARE FOR EVERY EXISTING SHARE HELD PAYABLE IN FULL ON ACCEPTANCE

Financial adviser to the Company



SOMERLEY LIMITED

Underwriter

HONG FOK INVESTMENT HOLDING COMPANY, LIMITED

The latest time for acceptance and payment for the Offer Shares is 4.00 p.m. on Monday 29th April, 2002. The procedures for acceptance are set out on pages 20 and 21 of this prospectus.

Shareholders should note that the Underwriting Agreement contains provisions granting the Underwriter the rights, which may be exercised at any time prior to the latest time for acceptance of assured allotments, to terminate its obligations thereunder on the occurrence of certain events, including force majeure, or where there is any material breach of any of the warranties or undertakings by the Company contained in the Underwriting Agreement or any event occurring or matter arising prior to the latest time for acceptance under the Open Offer which would have rendered any of the warranties by the Company untrue or incorrect in any material respect. For this purpose, force majeure refers to: (i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or (ii) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or (iii) any material adverse change in the business or in the financial or trading position of the Group as a whole; or (iv) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities) occurs which, in the reasonable opinion of the Underwriter, makes it inexpedient or inadvisable to proceed with the Open Offer. If the Underwriter exercises such right to terminate its obligation under the Underwriting Agreement, the Open Offer will not proceed.

It should be noted that the Shares have been dealt in on an ex-entitlements basis as from Monday, 8th April, 2002, and that dealings in such Shares will continue to take place whilst the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealings in the Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on Monday, 29th April, 2002) will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.

* For identification purpose only

15th April, 2002

FORCE MAJEURE

Shareholders should note that the Underwriting Agreement contains provisions granting the Underwriter the rights, which may be exercised at any time prior to the latest time for acceptance of assured allotments (which is currently expected to be on Monday, 29th April, 2002), to terminate its obligations thereunder on the occurrence of certain events, including force majeure, or where there is any material breach of any of the warranties or undertakings by the Company contained in the Underwriting Agreement or any event occurring or matter arising prior to the latest time for acceptance under the Open Offer which would have rendered any of the warranties by the Company untrue or incorrect in any material respect. For this purpose, force majeure refers to:

- (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (d) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities) occurs which, in the reasonable opinion of the Underwriter, makes it inexpedient or inadvisable to proceed with the Open Offer.

If the Underwriter exercises such right to terminate its obligation under the Underwriting Agreement, the Open Offer will not proceed.

FORCE MAJEURE

It should be noted that the Shares have been dealt in on an ex-entitlements basis as from Monday, 8th April, 2002, and that dealings in such Shares will take place whilst the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in the Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on Monday, 29th April, 2002) will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.

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DEFINITIONS

In this prospectus, the following expressions have the following meanings, unless the context requires otherwise:

“Application Form(s)”	application form(s) for the Offer Share(s)
“Acquisition”	the proposed acquisition by WF Investment of the entire issued share capital of, and shareholder’s loan to, Super Homes pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 18th January, 2002 made between WF Investment and HF Investment in relation to the Acquisition
“associate(s)”	has the meaning given to it in the Listing Rules
“Barragan”	Barragan Trading Corp., a substantial Shareholder of the Company not connected with the chief executive or director of the Company or director, chief executive or substantial shareholder of HF Investment or HFL or any of their respective associates
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Code”	the Hong Kong Code on Takeovers and Mergers
“Company”	Winfoong International Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Group immediately after the Acquisition
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Share Option Scheme”	the share option scheme adopted by the Company in October 1996

DEFINITIONS

“FPDSavills”	FPDSavills (Hong Kong) Limited, an independent professional property valuer
“Group”	the Company and its subsidiaries
“HF Investment” or “Underwriter”	Hong Fok Investment Holding Company, Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by Hong Fok
“HFL”	HFL International Consortium Limited, a company incorporated in the Cayman Islands with limited liability and is wholly-owned by HF Investment
“Hong Fok”	Hong Fok Corporation Limited, a company incorporated in Singapore, the shares of which are listed on the Singapore Exchange Securities Trading Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Independent Shareholders”	Shareholders other than HFL, HF Investment, their respective associates and parties acting in concert with any of them
“Latest Practicable Date”	10th April, 2002, being the latest practicable date for ascertaining certain information for inclusion in this prospectus
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Offer Share(s)”	the new Share(s) proposed to be offered to Qualifying Shareholders for subscription pursuant to the Open Offer
“Open Offer”	the proposed issue by way of open offer of the Offer Shares to Qualifying Shareholders on the terms set out herein
“Option(s)”	option(s) for the subscription of Shares granted pursuant to the Existing Share Option Scheme

DEFINITIONS

“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) on that date is or are in a place outside Hong Kong
“Property”	the Memo Building situated at No. 38 Conduit Road, Mid-levels, Hong Kong
“Qualifying Shareholder(s)”	Shareholder(s) who, at the close of business on the Record Date, has or have address(es) in Hong Kong on the register of members of the Company
“Record Date”	15th April, 2002, the date by reference to which entitlement under the Open Offer will be determined
“Registrars”	Central Registrations Hong Kong Limited, the Company’s branch share registrar in Hong Kong
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SFC”	the Securities and Futures Commission of Hong Kong
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	ordinary share(s) of HK\$0.05 each in the capital of the Company
“SGM”	a special general meeting of the Company held on Monday, 15th April, 2002
“Singapore Companies Act”	Companies Act, Chapter 50 of Singapore
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.195 per Offer Share pursuant to the Open Offer
“Super Homes”	Super Homes Limited, a company incorporated in Hong Kong with limited liability and currently wholly-owned by HF Investment

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement entered into between the Underwriter, HFL and the Company dated 18th January, 2002 in relation to the subscription of Offer Shares under, and the underwriting of, the Open Offer
“Underwritten Shares”	all the 465,963,601 Offer Shares (being all the Offer Shares less those Offer Shares allotted to HFL and the Underwriter which have been severally undertaken to be subscribed by them)
“Waiver”	a waiver from the obligation to make a mandatory offer under Rule 26 of the Code pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Code
“WF Investment”	Winfoong Investment Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“S\$”	Singapore dollars, the lawful currency of Singapore

For illustration purposes, amounts in S\$ have been translated into HK\$ at an exchange rate of S\$1.0 = HK\$4.2799.

EXPECTED TIMETABLE

2002

Record Date	Monday, 15th April
Prospectus and application forms to be posted	Monday, 15th April
Latest time for acceptance of Offer Shares and payment.....	4:00 p.m. on Monday, 29th April
Underwriting Agreement and Open Offer become unconditional.....	4:00 p.m. on Monday, 29th April
Completion of the Acquisition Agreement	Tuesday, 30th April
Announcement of the results of the Open Offer appears in newspaper	Friday, 3rd May
Share certificates for Offer Shares to be posted	Friday, 3rd May
Dealings in the Offer Shares commence	Monday, 6th May

LETTER FROM THE BOARD



WINFOONG INTERNATIONAL LIMITED

(榮豐國際有限公司)*

(Incorporated in Bermuda with limited liability)

Executive Directors:

Cheong Pin Chuan, Patrick (*Chairman*)

Cheong Kim Pong

Cheong Pin Seng

Cheong Sim Eng

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Independent non-executive Directors:

Kan Fook Yee

Lai Hing Chiu, Dominic

Principal place of business:

Room 801

9 Queen's Road Central

Hong Kong

Non-executive Director:

Lim Ghee

15th April, 2002

*To the Qualifying Shareholders and, for information only,
the Overseas Shareholders and holders of the Options*

Dear Sir and Madam,

**ACQUISITION OF PROPERTY INTEREST
AND
OPEN OFFER OF 747,416,993 OFFER SHARES
OF HK\$0.05 EACH TO QUALIFYING SHAREHOLDERS
AT HK\$0.195 PER OFFER SHARE IN THE PROPORTION OF
ONE OFFER SHARE FOR EVERY EXISTING SHARE HELD
PAYABLE IN FULL ON ACCEPTANCE**

INTRODUCTION

The Directors announced on 21st January, 2002 that WF Investment has entered into the Acquisition Agreement to acquire from HF Investment the entire issued share capital of, and shareholder's loan to, Super Homes. To fund the Acquisition, the Directors also announced on the same date the Open Offer to raise approximately HK\$145.7 million before expenses by issuing 747,416,993 Offer Shares at a price of HK\$0.195 per Offer Share, payable in full on

* For identification purpose only

LETTER FROM THE BOARD

acceptance. The Company will provisionally allot one Offer Share for every existing Share held by the Qualifying Shareholders whose names appear on the register of members of the Company on the Record Date. HF Investment has agreed to underwrite the Open Offer. HF Investment and its wholly-owned subsidiary, HFL, are together interested in approximately 37.7% of the Company's existing issued share capital. A circular containing, inter alia, details of the Acquisition Agreement, the Open Offer and a notice of the SGM was despatched to the Shareholders on 25th March, 2002. At the SGM, resolutions were duly passed by the Independent Shareholders to approve, inter alia, the Acquisition Agreement, the Open Offer and the Waiver.

The purpose of this prospectus is to set out further details of the Acquisition and the Open Offer including information on the procedures for acceptance of and dealings in the Offer Shares, and financial and other information of the Group.

THE ACQUISITION AGREEMENT

(i) Parties

Purchaser : WF Investment, a wholly-owned subsidiary of the Company

Vendor : HF Investment, a Shareholder which together with its wholly-owned subsidiary, HFL, are interested in an aggregate of approximately 37.7% of the existing issued share capital of the Company. HF Investment is in turn wholly-owned by Hong Fok

(ii) Assets to be acquired

WF Investment has agreed to acquire from HF Investment the entire issued share capital of, and shareholder's loan to, Super Homes. Super Homes is a property holding company whose principal asset is the Property situated at No. 38 Conduit Road, Mid-levels, Hong Kong and valued at HK\$243 million as at 31st December, 2001 by FPD Savills, an independent professional property valuer. The Property was valued by FPD Savills at HK\$241 million as at 31st January, 2002. FPD Savills has confirmed that the decrease in value of the Property is mainly due to a general decline in market rental for short term tenancy. The Directors consider that the fall in value of the Property is immaterial compared with the value of the Property. Copies of the letters and valuation report of FPD Savills on the Property are set out in Appendix I to this prospectus.

The Property is a 12-storey residential block, erected over a 4-storey carpark/lobby/recreational podium. There are a total of 36 apartments, each of gross floor area of approximately 1,050 sq.ft., and 39 vehicle parking spaces. All of the apartments and vehicle parking spaces are for short term rental purposes, with rental ranging from HK\$26,000 to HK\$38,000 per month. As at the Latest Practicable Date, 26 (72%) of the apartments and 27 (69%) of the vehicle parking

LETTER FROM THE BOARD

spaces were under lease. The monthly rental income generated under the aforesaid leases as at the Latest Practicable Date amounted to approximately HK\$965,000 (inclusive of rates and management fees). Based on the monthly rental income of HK\$965,000 and the value of the Property of HK\$243 million, the annual yield (before deduction of rates and management fees) amounts to approximately 4.8% per annum. Amongst the total monthly rental income of HK\$965,000, there were rental income of HK\$22,000 for leasing the roof of the Property to an outside party for installing a telecommunication antenna and rental income of HK\$75,000 for leasing the commercial unit at the ground floor of the Property. The commercial unit is now leased by Super Homes to a wholly-owned subsidiary of Hong Fok which in turn sublets it to an outside party. As agreed by the parties to the Acquisition Agreement, the commercial unit on the ground floor of the Property will be vacated on or before completion of the Acquisition. The Company has no intention to lease the unit to connected parties upon completion of the Acquisition. Super Homes is actively seeking tenants for the remaining unleased apartments and vehicle parking spaces through estate agents.

(iii) Financial information on Super Homes

A copy of the accountants' report on Super Homes for the three years ended 31st December, 2001 is set out in Appendix II to this prospectus. For the year ended 31st December, 2001, Super Homes recorded a turnover of approximately HK\$13.3 million and a loss of approximately HK\$4.6 million. For the year ended 31st December, 2000, Super Homes recorded a turnover of approximately HK\$2.8 million and a loss of approximately HK\$12.0 million. For the year ended 31st December, 1999, Super Homes recorded a turnover of approximately HK\$8.5 million and a loss of approximately HK\$12.8 million. The losses were principally due to the significant interest expenses of approximately HK\$14.4 million, HK\$14.0 million and HK\$10.0 million for the bank loans for the years ended 31st December, 1999, 2000 and 2001 respectively and the fact that the Property was under renovation for more than half of the year 2000 and no rental was collected during the said period. Interest on the shareholder's loan was calculated at Hong Kong dollar prime rate per annum for the year ended 31st December 1999 and Hong Kong dollar prime rate minus 1% per annum for each of the two years ended 31st December, 2000 and 2001. There was no tax payable for each of the three years ended 31st December, 2001. As at 31st December, 2001, Super Homes had audited net deficits of approximately HK\$86.5 million. As at 31st December, 2001, Super Homes had outstanding bank loans of approximately HK\$169 million, of which approximately HK\$13 million was classified as current liabilities. Nevertheless, as explained in the paragraph below, Super Homes intends to repay HK\$80 million upon completion of the Acquisition and draw down another term loan of HK\$33 million from another bank. As at 31st December, 2001, Super Homes had an outstanding shareholder's loan of approximately HK\$157.8 million, of which HK\$49.2 million was interest-free, while the remaining balance of approximately HK\$108.6 million bore interest at Hong Kong dollar prime rate minus 1% per annum. Upon completion of Acquisition, the entire shareholder's loan will be assigned to WF Investment and it is the intention of the Directors that no interest will be charged to Super Homes by WF Investment for the year ending 31st December, 2002.

LETTER FROM THE BOARD

The Property has been used to secure a bank loan of Super Homes in the amount of approximately HK\$89 million as at 31st December, 2001. As at the same date, other loans of Super Homes not secured by the Property amounted to approximately HK\$80 million.

(iv) Consideration

The consideration for the Acquisition was arrived at after arm's length negotiations between the parties. The consideration will be calculated based on the audited net asset value of Super Homes as at 31st December, 2001 (taking into account the market value of the Property of HK\$243 million as at 31st December, 2001 as assessed by FPD Savills) and the face value of the outstanding shareholder's loan as at completion of the Acquisition Agreement. Based on the audited accounts of Super Homes as at 31st December, 2001, Super Homes had a net deficit of approximately HK\$86.5 million (taking into account the aforesaid valuation of the Property) and outstanding shareholder's loan of approximately HK\$157.8 million. On the above basis, a total consideration of approximately HK\$71.3 million will be payable by WF Investment to HF Investment upon completion of the Acquisition Agreement. The consideration will be payable in cash but may be settled by way of the set-off arrangement described below. The Directors consider that the consideration has been determined on a fair and reasonable basis.

(v) Conditions

Completion of the Acquisition Agreement is subject to, inter alia:

- (i) approval by the Independent Shareholders by way of a poll of the Acquisition Agreement and the Open Offer, and the Underwriting Agreement having become unconditional in all respects (except in respect of any condition requiring the Acquisition Agreement to become unconditional);
- (ii) all necessary approvals and consents having been obtained from the relevant banks;
- (iii) WF Investment having received all title documents of the Property and being reasonably satisfied with the due diligence of the title of Super Homes to the Property;
- (iv) if so required, the approval by the shareholders of Hong Fok in respect of the transactions contemplated in the Acquisition Agreement having been obtained; and
- (v) all necessary approvals and consents from all relevant governmental, regulatory or other authorities and third parties in respect of the transactions contemplated in the Acquisition Agreement having been obtained and not having been revoked.

LETTER FROM THE BOARD

WF Investment may waive (in whole or in part) conditions (ii) and (iii) above. Completion of the Acquisition Agreement shall take place on the next business day following (but excluding) the latest time for acceptance under the Open Offer (which is currently expected to be on Monday, 29th April, 2002) or such other date as may be agreed between HF Investment and WF Investment. The parties to the Acquisition Agreement have agreed that if the conditions in the Acquisition Agreement are not fulfilled or waived on or before 2nd July, 2002 (as extended from 2nd April, 2002 to 2nd July, 2002 pursuant to a letter agreement dated 11th March, 2002 entered into between WF Investment and HF Investment) or such other date as agreed by both parties, either party may terminate the Acquisition Agreement by giving 14 calendar days' notice in writing to the other party and upon expiration of such notice, the Acquisition Agreement shall be terminated whereupon both parties' respective rights and obligations shall be released and discharged without liability, save for any liability in respect of antecedent breach.

(vi) Source of funds

WF Investment will fund the total consideration of approximately HK\$71.3 million for the Acquisition from the proceeds of the Open Offer. As at 31st December, 2001, Super Homes had outstanding bank loans of approximately HK\$169 million, which is partly secured against the Property. It is intended that up to approximately HK\$80 million of such bank loan which is not secured against the Property will be repaid, of which approximately HK\$70.7 million will be paid out of the proceeds from the Open Offer, which is further discussed below.

(vii) Reasons for the Acquisition

The Group is principally engaged in property investment and management, property construction and development and the provision of horticultural services. The acquisition of Super Homes will enable the Group to enlarge its property portfolio. As mentioned under the paragraph headed "Financial information on Super Homes" above, the recorded losses of Super Homes for the past three financial years ended 31st December, 2001 were principally attributable to the substantial interest expenses incurred for the bank loans and the fact that the Property was under renovation for more than half of the year 2000 and no rental was collected during the said period. With the intended partial repayment of the bank loans of HK\$80 million as mentioned above and the indicated offer of a lower interest rate to Super Homes by a lending bank, the financial position of Super Homes is expected to improve. WF Investment intended not to charge any interest on the shareholder's loan to Super Homes upon completion of the Acquisition for the year ending 31st December, 2002. Based on the audited loss of Super Homes of approximately HK\$4.6 million for the year ended 31st December, 2001 and assuming the reduction of bank loans and the lowering of interest rate take place on 1st January, 2001, the pro forma adjusted profits of Super Homes would be approximately HK\$6.3 million. Currently Super Homes intends to draw down HK\$33 million loan from another bank upon repayment of the aforementioned HK\$80 million loan. Taking into account the interest on the HK\$33 million loan, the pro forma adjusted profits of Super Homes for the year ended 31st December, 2001 would be approximately HK\$4.6 million.

LETTER FROM THE BOARD

(viii) Connected transaction

HF Investment and its wholly-owned subsidiary, HFL, are together interested in approximately 37.7% of the Company's existing issued share capital. The Acquisition therefore constitutes a connected transaction of the Company under the Listing Rules and has been approved by the Independent Shareholders at the SGM. The Group on the other hand is interested in approximately 20.2% of Hong Fok. Hong Fok is listed on the Singapore Stock Exchange and, together with its subsidiaries, is principally engaged in property investment, development and management in Singapore. As at 31st December, 2000, the audited consolidated net assets of Hong Fok were approximately S\$781 million (HK\$3,343 million).

THE OPEN OFFER

(i) Issue statistics

Basis of Open Offer	– one Offer Share for every existing Share held on the Record Date
Existing issued share capital	– 747,416,993 Shares
Number of Offer Shares	– 747,416,993 Offer Shares
Outstanding Options	– There are an aggregate of 60,000,000 Options outstanding, which are exercisable into an aggregate of 60,000,000 Shares at a subscription price of HK\$0.268 per Share (subject to adjustments) during the period up to 10th July, 2004. All of the Option holders have undertaken not to exercise the Options on or before the Open Offer becomes unconditional.

(ii) Subscription Price

HK\$0.195 per Offer Share, payable in full when a Qualifying Shareholder accepts any Offer Shares offered to him/her. The Subscription Price represents:

- (a) a premium of approximately 17.5% over the closing price of HK\$0.166 per Share as quoted on the Stock Exchange on 18th January, 2002 (being the date of the Underwriting Agreement);
- (b) a premium of approximately 8.0% over the theoretical ex-entitlement price of HK\$0.1805 per Share based on the aforesaid closing price per Share;
- (c) a premium of approximately 14.2% over the average closing price of the Shares of approximately HK\$0.1708 for the 10 trading days ended on 18th January, 2002;

LETTER FROM THE BOARD

- (d) a premium of approximately 3.7% over the closing price of HK\$0.188 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (e) a discount of approximately 90.7% to the unaudited net asset value of approximately HK\$2.0861 per Share as at 30th June, 2001 as reported in the interim report of the Company for the six months ended 30th June, 2001; and
- (f) a discount of approximately 89.1% to the audited net asset value of approximately HK\$1.7948 per Share as at 31st December, 2001.

The Subscription Price for the Offer Shares has been determined based on arm's length negotiations between the Company and the Underwriter with reference to prevailing market prices of the Shares and the underlying net asset value of the Company. The Subscription Price has been set at HK\$0.195, which is approximately mid-way between the high/low trading range of the Shares of HK\$0.232 to HK\$0.166 over the last six months immediately before the date of the Underwriting Agreement. The average of the closing prices of the Shares during this period is HK\$0.187. Although the Subscription Price is at a premium to the recent market price of the Shares, it is at a substantial discount to the underlying net asset value per Share, being approximately HK\$1.7948 per Share as at 31st December, 2001. As the Shares have been thinly traded on the Stock Exchange, with monthly turnover recorded for the six months ended 31st December 2001 being less than 0.12% of the existing issued share capital of the Company, the market price may not adequately reflect the fair value of the Shares. As the Group is principally engaged in property investment and development business, the Directors consider that reference to the underlying asset value of the Shares as well as to the market price is appropriate. Accordingly, the Directors consider that the terms of the Underwriting Agreement (including the Subscription Price) are fair and reasonable, taking into consideration that a lower subscription price will lead to a larger dilution to the underlying net asset value on a per Share basis.

(iii) Status of the Offer Shares

When fully paid and allotted, the Offer Shares will rank *pari passu* in all respects with the existing Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment of the Offer Shares.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement of dealing in the Offer Shares on the Stock Exchange or such other date as determined by Hongkong Clearing. Settlement of transaction between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE BOARD

(iv) Share certificates

Subject to fulfillment of the conditions of the Open Offer, share certificates for all fully-paid Offer Shares are expected to be posted on or before Friday, 3rd May, 2002.

(v) Overseas Shareholders

No action has been taken in any territory other than Hong Kong and Bermuda to permit the offering of the Offer Shares or the distribution of this prospectus or the Application Forms in any territory other than Hong Kong. Accordingly, no person receiving an Application Form in any territory outside Hong Kong may treat it as an offer or invitation to apply for Offer Shares, unless in the relevant territory such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements. Subject as referred to above, it is the responsibility of anyone outside Hong Kong wishing to make an application for the Offer Shares to satisfy himself as to the observance of the laws and regulations of all relevant territories, including the obtainance of any government or other consents, and to pay any taxes and duties required to be paid in such territory in connection therewith. No application for Offer Shares will be accepted from any person whose registered address is outside Hong Kong. The Company reserves the right to refuse to accept any application for Offer Shares where it believes that doing so would violate the applicable securities or other laws or regulations of the territory of residence of the applicant.

As the documents issued in connection with the Open Offer have not been and will not be registered or filed under any applicable securities legislation in any jurisdiction other than Hong Kong and Bermuda, the issue of Offer Shares to Overseas Shareholders may therefore contravene the applicable securities legislation of the place of residence of such Overseas Shareholders and the Overseas Shareholders will not be entitled to take part in the Open Offer. Accordingly, no Application Forms are being sent to the Overseas Shareholders. The Company is sending the prospectus in relation to the Open Offer to the Overseas Shareholders for their information only and is not sending the Application Forms to the Overseas Shareholders.

(vi) Application for listing

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares in their fully-paid form. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong. No listing will be sought for the Offer Shares in their nil-paid form.

LETTER FROM THE BOARD

THE UNDERWRITING AGREEMENT

Underwriter : HF Investment

Number of Offer Shares underwritten : 465,963,601 Offer Shares

Commission : HK\$1,817,258, being 2% on the aggregate Subscription Price for the number of Offer Shares underwritten by the Underwriter. The Directors believe that the underwriting commission accords with the market rate.

As at the date of the Underwriting Agreement, HFL and HF Investment, both beneficially wholly-owned by Hong Fok, were respectively interested in 277,601,392 Shares and 3,852,000 Shares, representing approximately 37.14% and 0.52% of the issued share capital of the Company. HFL and HF Investment have undertaken that they will subscribe for the respective 277,601,392 Offer Shares and 3,852,000 Offer Shares that will be allotted to them under the Open Offer. HF Investment agreed to underwrite the balance of 465,963,601 Offer Shares.

Under the prevailing weak market condition, the Company had not been able to secure any commercial underwriter without offering the Open Offer at unfavourable terms to the Company. As the Directors believe that setting the terms of the Open Offer at unfavourable rates would not be of benefit to the Company and the Shareholders and as Hong Fok is agreeable to act as the underwriter to support the Company, HF Investment has been appointed to underwrite the Open Offer.

(i) Application for the Waiver

The following table sets out the existing shareholding structure of the Company and the shareholding structure of the Company immediately upon completion of the Open Offer assuming different levels of subscription by the Independent Shareholders:

	Existing shareholding		Shareholding upon completion of the Open Offer assuming subscription by Independent Shareholders of					
	Shares	(%)	0% Shares	(%)	50% Shares	(%)	100% Shares	(%)
Hong Fok and associates								
and concert parties	281,453,392	(37.7)	1,028,870,385	(68.8)	795,888,585	(53.2)	562,906,784	(37.7)
Barragan	142,656,283	(19.1)	142,656,283	(9.6)	213,984,424	(14.3)	285,312,566	(19.1)
Public	323,307,318	(43.2)	323,307,318	(21.6)	484,960,977	(32.5)	646,614,636	(43.2)
Total	<u>747,416,993</u>	<u>(100.0)</u>	<u>1,494,833,986</u>	<u>(100.0)</u>	<u>1,494,833,986</u>	<u>(100.0)</u>	<u>1,494,833,986</u>	<u>(100.0)</u>

LETTER FROM THE BOARD

If HF Investment is required to take up the Underwritten Shares in full, it and its associates and parties acting in concert with it will, prior to the placement arrangements referred to below, hold a maximum of approximately 68.8% of the issued share capital of the Company as enlarged by the Open Offer. Consequently, HF Investment and its associates and parties acting in concert with it (including Hong Fok and HFL) may exceed the 2% creeper limit allowed under the Code and trigger a general offer obligation for the Shares not owned by it or parties acting in concert with it under Rule 26 of the Code. Accordingly, an application has been made by HF Investment to the Executive for the Waiver pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Code. The Waiver was granted by the Executive on 2nd April, 2002, and is subject to, among other things, the approval of the Independent Shareholders by way of a poll, which approval was obtained at the SGM held on 15th April, 2002. The Executive has indicated that as the Acquisition Agreement and the Open Offer were entered into before the amendments of the Code became effective in February 2002, the old rule in respect of the creeper authorisation will apply, which states that the person or group of person who has obtained a whitewash waiver shall be precluded from acquiring additional shares for the 12 month period immediately following the acquisition of the voting rights, unless such further acquisition is authorised by way of a separate vote of independent shareholders. HF Investment did not seek for the creeper authorisation from the Independent Shareholders at the SGM. Pursuant to the Code, if the interest of HF Investment and its associates and parties acting in concert with it in the Company exceed 52% of the voting rights of the Company as a result of the Open Offer, they will be allowed to increase their holding in the Company without incurring any further obligation under Rule 26 of the Code to make a general offer. However, it is the intention of HF Investment to maintain its and its associates' interest in the Company to below 50% as detailed in the following paragraphs.

HF Investment and its associates and parties acting in concert with it (including Hong Fok and HFL) have confirmed that they have not dealt in any Shares during the six months prior to the date of the Underwriting Agreement and up to the Latest Practicable Date.

The Company is at present interested in approximately 20.2% of the issued share capital of Hong Fok. If HF Investment is required to subscribe for more than 184,510,209 Underwritten Shares and taking into account subscription in full of its and HFL's entitlement, HF Investment and its associates and parties acting in concert with it will hold more than 50% of the enlarged issued share capital of the Company after the completion of the Open Offer, and consequently the Company will become a subsidiary of Hong Fok. Under the Singapore Companies Act, a corporation cannot be a member of a company that is its holding company. HF Investment and HFL have therefore undertaken to the Company in the Underwriting Agreement that they will place out such number of Shares within 12 months (if the Company becomes a subsidiary of Hong Fok following completion of the Open Offer), so as to bring down the resultant aggregate shareholding of HF Investment, HFL and its subsidiaries to 50% or less of the enlarged issued share capital of the Company and then the Company will cease to be a subsidiary of Hong Fok. Under the Singapore Companies Act, if the Company becomes a

LETTER FROM THE BOARD

subsidiary of Hong Fok, it shall have no right to vote at meetings of Hong Fok. HF Investment and HFL have further undertaken in the Underwriting Agreement that should HF Investment be required to subscribe for any Underwritten Shares pursuant to the Underwriting Agreement and, as a result, the public shareholding of the Company falls to below 25% after the closing of the Open Offer, they will place out such number of Shares to independent third parties so as to enable the Company to comply with the Listing Rules. The Stock Exchange has stated that if less than 25% of the issued Shares are in public hands following the closing of the Open Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

(ii) Termination of the Underwriting Agreement

Shareholders should note that the Underwriting Agreement contains provisions granting the Underwriter the rights, which may be exercised at any time prior to the latest time for acceptance of assured allotments (which is currently expected to be on Monday, 29th April, 2002), to terminate its obligations thereunder on the occurrence of certain events, including force majeure, or where there is any material breach of any of the warranties or undertakings by the Company contained in the Underwriting Agreement or any event occurring or matter arising prior to the latest time for acceptance under the Open Offer which would have rendered any of the warranties by the Company untrue or incorrect in any material respect. For this purpose, force majeure refers to:

- (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

LETTER FROM THE BOARD

- (d) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities) occurs which, in the reasonable opinion of the Underwriter, makes it inexpedient or inadvisable to proceed with the Open Offer.

If the Underwriter exercises such right to terminate its obligation under the Underwriting Agreement, the Open Offer will not proceed.

It should be noted that the Shares will be dealt in on an ex-entitlements basis as from Monday, 8th April, 2002, and that dealings in such Shares will take place whilst the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in the Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on Monday, 29th April, 2002) will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.

(iii) Reasons for the Open Offer and use of proceeds

The net proceeds of the Open Offer of approximately HK\$142 million are intended to be applied as to approximately HK\$71.3 million for the settlement of the consideration payable under the Acquisition Agreement, and as to the remaining balance of approximately HK\$70.7 million for the repayment of part of the bank loans owed by Super Homes. The Directors believe that the Open Offer is in the interests of the Group and the Shareholders given that the Open Offer will increase the capital base of the Group which will be used to expand the Group's property investment operations.

Hong Fok and its associates and concert parties have been holding a controlling interest in the Company. Hong Fok has indicated that it has no intention to change the existing business or management of the Company or the continued employment of the employees of the Group or to redeploy any of the Group's fixed assets, in the event that its and its concert parties' interests in the Company increase as a result of taking up additional Shares pursuant to HF Investment's underwriting obligation.

LETTER FROM THE BOARD

(iv) Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional, among other things, on the following conditions being fulfilled:

- (a) the Independent Shareholders approving by way of a poll the Open Offer, the Waiver and the Acquisition Agreement at the SGM;
- (b) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of, and permission to deal in, the Offer Shares in their fully paid form by no later than the latest time for acceptance;
- (c) if required, the Bermuda Monetary Authority granting consent to the issue of the Offer Shares on or prior to the prospectus posting date;
- (d) compliance with and performance of all the undertakings and obligations of the Company as specified in the Underwriting Agreement;
- (e) the obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter in accordance with its terms;
- (f) the Acquisition Agreement having become unconditional in all respects (except in respect of any condition requiring the Underwriting Agreement to become unconditional);
- (g) the filing of the prospectus documents with the Registrar of Companies in Hong Kong and Bermuda;
- (h) if required, the approval of the shareholders of Hong Fok of the Acquisition Agreement and the Underwriting Agreement at a general meeting;
- (i) the Waiver having been obtained from the SFC and not having been revoked;
- (j) the Open Offer having become unconditional in all respects;
- (k) the Open Offer not being prohibited or restricted by any statute, order, directive, rule, regulation, guideline or request promulgated or issued by any legislative, executive or regulatory body or authority of Hong Kong or Singapore; and
- (l) all relevant regulatory approvals and third party consents required to be obtained by the Underwriter and the Company in respect of the transactions contemplated in the Underwriting Agreement having been obtained.

LETTER FROM THE BOARD

If the above conditions are not satisfied and/or waived in whole or in part by the Underwriter by 4:00 p.m. on 2nd July, 2002 (as extended from 2nd April, 2002 to 2nd July, 2002 pursuant to a letter agreement dated 11th March, 2002 entered into between the Company, HF Investment and HFL) or such later date or dates as the Underwriter may agree with the Company in writing, the Open Offer will terminate and no party will have any claim against the other (save for any rights or obligations which may accrue under the Underwriting Agreement prior to such termination). The Underwriter has indicated that it will not waive condition (i) as stated above.

(v) Underwriting obligation and set-off arrangement

The Underwriter's obligations shall terminate if there is full subscription of the Offer Shares in accordance with the terms of the prospectus documents by the latest time for acceptance of the Offer Shares. If there is any short fall in the subscription, the Underwriter will have to subscribe or procure subscription of the unsubscribed Offer Shares and pay the relevant subscription monies, less the relevant underwriting commission, (the "Underwriting Payment") to the Company by no later than 4:00 p.m. on the next business day following the latest time for acceptance and which will be on the same day as the date of completion under the Acquisition Agreement. The Company and the Underwriter have agreed to a set-off arrangement whereby the Underwriter shall set-off the Underwriting Payment against the consideration receivable by it under the Acquisition Agreement. Any amount of the Underwriting Payment in excess of the said acquisition consideration shall be payable by the Underwriter by the time mentioned above.

BUSINESS OVERVIEW AND FUTURE PROSPECTS OF THE GROUP

(i) Business review and future prospects

During the year 2001, the Group continued to engage in property related businesses and provision of horticultural services.

The Group recorded loss before tax of approximately HK\$46.5 million for the year 2001 which showed an improvement of 70% over that of approximately HK\$154.4 million for the year 2000. The improvement of results was mainly attributable to the significant improvement in the gross results of approximately HK\$106.2 million, the decrease in finance costs of approximately HK\$14.1 million but slightly offset by the increase in operating expenses of approximately HK\$9.4 million.

The turn from gross loss of approximately HK\$73.6 million for the year 2000 to the gross profit of approximately HK\$32.6 million was mainly attributable to the loss of approximately HK\$108.5 million on disposal of a property under development (the "Shek O Property") in 2000. The gross profit in year 2001 was mainly contributed by the rental income. The occupancy level of the Group's rental property portfolio remained high and the rental income remained stable during the year.

LETTER FROM THE BOARD

The decrease in finance costs was a result of the decrease in borrowing after the disposal of the Shek O Property in 2000 and the decrease in interest rates during the year.

The increase in operating expenses was mainly due to a provision of HK\$8.6 million made for a property held for sale.

Subsequent to 31st December, 2001, the Company has completed the placement of 63 million new Shares at HK\$0.175 per Share, representing approximately 8.4% of the enlarged share capital of the Company, to an independent third party. The proceeds of the placement is approximately HK\$11 million and it is intended to be applied as general working capital of the Group.

The Group will continue to look for any potential investment opportunities to broaden its earning base.

(ii) Liquidity and financial resources

All the Group's funding and treasury activities are centrally managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's annual report for the year ended 31st December, 2001. Majority of the Group's borrowings are denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange rate fluctuations except for the interest in an associate in Singapore which is held as a long term investment.

The Group has substantial committed undrawn credit facilities from its bankers, providing the Group with strong financing flexibility and liquidity to meet its funding needs and working capital requirements.

The majority of the Group's borrowings will mature in 2006. As at 31st December, 2001, the Group had outstanding bank loans of approximately HK\$480.5 million.

PROCEDURES FOR ACCEPTANCE OF ASSURED ALLOTMENTS

There is an Application Form accompanying this prospectus which entitles you to subscribe for the number of Offer Shares set out thereon. Qualifying Shareholders should note that they may apply for any number of Offer Shares up to the number set out in the Application Form. If you are a Qualifying Shareholder and you wish to apply for all or any of the Offer Shares to which you are entitled as specified in the accompanying Application Form in respect of assured entitlements, you must sign and lodge the Application Form, duly completed in accordance with the instructions printed thereon and accompanied by an appropriate remittance for the full amount payable on acceptance in respect of the Offer Shares applied for, with the Registrars, Central Registration Hong Kong Limited, at Shops 1712-1716, 17th Floor,

LETTER FROM THE BOARD

Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 29th April, 2002. All remittances must be made in Hong Kong dollars and cheques or cashier orders must be drawn on a bank in Hong Kong and made payable to "Winfoong International Limited – Open Offer Account" and crossed "Account Payee Only".

If the conditions of the Open Offer are not fulfilled, the application monies will be refunded, without interest, by sending a cheque made out to the applicant (or in the case of joint applicants, to the first named applicant) and crossed "Account Payee Only", through ordinary post at the risk of the applicant(s) to the address specified in the register of members of the Company.

The Application Form contains full information regarding procedures to be followed if you wish to accept only part of your assured entitlements.

All cheques or cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any application in respect of which the cheque is dishonoured on first presentation is liable to be rejected, and in that event the Application Form and all rights thereunder will be deemed to have been declined and will be cancelled.

The Application Form is for use only by the person(s) to whom it is addressed and is not transferable.

No receipt will be issued in respect of any application monies received.

ADJUSTMENT TO THE NUMBER OF SHARES SUBJECT TO OUTSTANDING OPTIONS

Subject to the Open Offer becoming unconditional, the number of Shares subject to each outstanding Option, as certified by the Company's auditors, Ernst & Young, will be adjusted by multiplying the number of Shares subject to each outstanding Option on the Record Date by a factor of two (the "Adjustment"). The Adjustment will take effect from 16th April, 2002, the date immediately following the Record Date. Accordingly, the number of Shares that may fall to be issued upon exercise in full of the outstanding Options as at the Latest Practicable Date will increase from 60,000,000 Shares before the Adjustment becoming effective to 120,000,000 Shares after the Adjustment having become effective.

FURTHER INFORMATION

Your attention is drawn to the information contained in the Appendices to this prospectus.

Yours faithfully,
for and on behalf of the Board
Cheong Pin Chuan, Patrick
Chairman

The following are the texts of two letters (together with the valuation certificate, if relevant) prepared for the purpose of incorporation in this prospectus and received from FPD Savills in connection with their opinion of the value of the Property as at 31st January, 2002 and 31st December, 2001 respectively:



FPDSavills (Hong Kong) Limited
23/F Two Exchange Square
Central
Hong Kong

Telephone: 2801 6100
Direct Line: 2801 6100
Direct Fax: 2530 0756

www.fpd Savills.com



15th April, 2002

The Directors
Winfoong International Limited
Room 801
9 Queen's Road Central
Hong Kong

Dear Sirs,

**Re: The Whole Building of No. 38 Conduit Road, Mid-Levels,
Hong Kong (the "Property")**

We refer to our valuation report dated 25th March, 2002 of the Property valued as at 31st December, 2001 and your further instruction to provide our opinion of value of the Property as at 31st January, 2002.

We confirm that we have made relevant enquiries and investigations as we consider necessary for the purpose of providing you with our opinion of the open market value of the Property as at 31st January, 2002.

We have valued the Property which is held for investment purposes by capitalizing the current rent passing at appropriate yields with their potential interests taken into account.

Based on the above, our opinion of the open market value of the Property as at 31st January, 2002 in its existing state is in the sum of **HK\$241,000,000 (Hong Kong Dollars Two Hundred and Forty One Million)**.

Our valuation is subject to the assumptions and limiting conditions as contained in the said valuation report.

Yours faithfully,
For and on behalf of
FPDSavills (Hong Kong) Limited

William W L Wong
BLE, MRICS, AHKIS, RPS(GP)
Senior Director
Valuation and Consultancy

Gilbert C H Chan
Bsc(Hons), AHKIS, MRICS
Associate Director
Valuation and Consultancy



FPDSavills (Hong Kong) Limited
23/F Two Exchange Square
Central
Hong Kong

Telephone: 2801 6100
Direct Line: 2801 6100
Direct Fax: 2530 0756

www.fpsavills.com



25th March, 2002

The Directors
Winfoong International Limited
Room 801
9 Queen's Road Central
Hong Kong

Dear Sirs,

**Re: The Whole Building of No. 38 Conduit Road, Mid-Levels,
Hong Kong (the "Property")**

We refer to your instruction to provide a report on the open market value of the Property. We confirm that we have caused land searches at the Land Registry, made relevant enquiries and investigations as we consider necessary for the purpose of providing you with our opinion of the open market value of the property as at 31st December, 2001 (the "Valuation Date").

Our valuation is our opinion of the open market value of the concerned property which we would define as intended to mean "the best price at which the sale of an interests in property would have been completed unconditionally for cash consideration on the Valuation Date, assuming:

- (a) a willing seller;
- (b) that, prior to the Valuation Date, there had been a reasonable period (having regard to the nature of the Property and the state of the market) for the proper marketing of the interests, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the Valuation Date;

- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Our valuation is made in accordance with the Guidance Notes on the Valuation of Property Assets published by the Hong Kong Institute of Surveyors.

In valuing the Property which is held for investment purposes, we have capitalized the current rent passing at appropriate yields with their potential interests taken into account.

Our valuation has been made on the assumption that the Property is sold on the open market in its existing state without the effect of deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect the value of the Property.

We have assumed that the owner of the Property has enforceable title to the property interests, and has free and uninterrupted rights to use the property for the whole of the respective unexpired terms granted subject to payment of annual Government rent. Furthermore, we have valued it on the assumption that it is freely disposable and transferable to third parties on the open market without paying any additional premium or other onerous payment.

Other special assumptions of the Property has been stated in the footnotes of the valuation certificate for the Property.

We have caused searches to be made at the Urban Land Registry against the Property. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us.

We have inspected the exterior and, where possible the interior of all parts of the Property. However, no structural survey has been made and we are therefore unable to report as to whether the Property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by you, particularly in respect of easements, tenures, lettings, rentals, site and floor areas. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by you and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by you. We have also been advised by you that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have not verified and make no representation that the property, including any plant and equipment therein, is millennium compliant, or that the value of the Property is not adversely affected in any way by any part of them not being millennium compliant within the meaning of BSI definition of Year 2000 compliance.

We enclose herewith the valuation certificate.

Yours faithfully,
For and on behalf of
FPDSavills (Hong Kong) Limited

William W L Wong
BLE, MRICS, AHKIS, RPS(GP)
Senior Director
Valuation and Consultancy

Gilbert C H Chan
BSc (Hons), AHKIS, MRICS
Associate Director
Valuation and Consultancy

Note: Mr. William Wong and Mr. Gilbert Chan are Chartered Surveyors with over 9 years’ valuation experience on properties in Hong Kong and over 5 years’ valuation experience on properties in the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of Occupancy	Capital Value in existing state as at 31st December, 2001
The Whole Building of No. 38 Conduit Road, Mid-Levels, Hong Kong	The subject building is a 12-storey (1/F to 12/F) apartment block erected over a 4-storey carpark (34 carparking spaces and 5 motor cycle parking spaces)/lobby/recreational/retail podium (i.e. the G/F, LB/F, B/F and UB/F) which was completed in about 1972 and fully refurbished in 2000.	As at 31st December, 2001, 28 of the 36 apartments, 19 of the 34 car-parking spaces and 4 of the 5 motor cycle parking spaces were subject to various tenancies and licences with the latest one expiring on 30th November, 2002 at a total gross monthly rent of HK\$954,584 (most of which inclusive of rates and management fee), the remainders were vacant.	HK\$243,000,000
The Remaining Portion of Inland Lot No. 12503	The site area of the property is approximately 7,313 sq.ft. (679.40 sq.m.) and the total gross floor area is approximately 37,804.08 sq.ft. (3,512.12 sq.m.). The lot is held under a Government Lease for a term of 999 years commencing on 25th June, 1861. The Government rent for the Lot is HK\$28 per annum.	In addition, there was a total rental income of HK\$97,000 per month generating from the non-residential sources.	

Notes:

1. The registered owner of the Property is Super Homes Limited vide Memorial No. 6935567 dated 30th January, 1997.
2. The Property is subject to a Debenture in favour of Hang Seng Bank Limited to an extent of HK\$115,000,000 vide Memorial No. 6935568 dated 30th January, 1997.
3. The Property is subject to a Deed of Variations vide Memorial No. 6935568 and Further Charge in favour of Hang Seng Bank Limited vide Memorial No. 8053388 dated 31st March, 2000.
4. The subject building lies within an area zoned “Residential (Group B)” on the Mid-Levels West Outline Zoning Plan No. S/H11/12 dated 24th August, 2001.
5. Upon our inspection, we noted that there is a commercial unit situated on the Ground Floor of the building.

The following is the text of a report received from the auditors and reporting accountants of Super Homes, Ernst & Young, Certified Public Accountants, Hong Kong:



安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

25th March, 2002

The Directors
Winfoong International Limited
Super Homes Limited

Dear Sirs,

We set out below our report on the financial information regarding Super Homes Limited (“Super Homes”) for the three years ended 31st December, 2001 (the “Relevant Periods”) prepared on the basis set out in Section 1 below, for inclusion in the circular of Winfoong International Limited dated 25th March, 2002 (the “Circular”).

Super Homes was incorporated in Hong Kong on 22nd August, 1978 with limited liability under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). Super Homes is principally engaged in the business of property investment.

We have examined the audited financial statements of Super Homes for the Relevant Periods in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountant.

We have acted as auditors of Super Homes for the Relevant Periods. We have not audited any financial statements of Super Homes in respect of any period subsequent to 31st December, 2001.

The summaries of the results, statements of movements in equity and cash flows of Super Homes for the Relevant Periods and the balance sheets of Super Homes as at the end of each of the Relevant Periods (the “Summaries”) set out in this report have been prepared by the directors of Super Homes based on the audited financial statements of Super Homes. The directors of Super Homes are responsible for the preparation of the Summaries which give a true and fair view. In preparing the Summaries which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the results and cash flows of Super Homes for the Relevant Periods and of the state of affairs of Super Homes as at the end of each of the Relevant Periods.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements of Super Homes, include the results, statements of movements in equity, cash flows and balance sheets of Super Homes.

The Summaries have been prepared under the going concern concept, notwithstanding Super Homes' net current liabilities and deficiency in assets as at 31st December, 2001, because Hong Fok Corporation Limited ("Hong Fok"), the ultimate holding company, has agreed to provide adequate funds for Super Homes to meet its liabilities as and when they fall due. The continuing financial support from Hong Fok will be terminated upon the completion of the conditional sale and purchase agreement dated 18th January, 2002 entered into between Winfoong Investment Limited, a wholly-owned subsidiary of Winfoong International Limited ("Winfoong") and Hong Fok Investment Holding Company, Limited, a wholly-owned subsidiary of Hong Fok (the "Agreement"). Winfoong has agreed to provide adequate funds for Super Homes to meet its liabilities as and when they fall due after the completion of the Agreement.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by Super Homes in arriving at the Summaries set out in this report, which conform with accounting principles generally accepted in Hong Kong, are set out below:

Fixed assets and depreciation

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of a fixed asset is recognised in the profit and loss account as being the difference between the net sale proceeds and the carrying amount of the relevant asset.

Depreciation of equipment, furniture and fixtures is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life of five years.

Investment properties

Investment properties are interests in land and buildings in respect of which construction works and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than twenty years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of the investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Deferred tax

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

Revenue recognition

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

- (a) rental income, on a straight-line basis over the lease terms; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Super Homes is the lessor, assets leased by Super Homes under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where Super Homes is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Related parties

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

3. RESULTS

The following is a summary of the results of Super Homes for the Relevant Periods, prepared on the basis set out in Section 1 above:

	<i>Notes</i>	Year ended 31st December,		
		1999 <i>HK\$ '000</i>	2000 <i>HK\$ '000</i>	2001 <i>HK\$ '000</i>
TURNOVER	(a)	8,512	2,785	13,256
Cost of sales		<u>(1,556)</u>	<u>(1,655)</u>	<u>(1,797)</u>
Gross profit		6,956	1,130	11,459
Other revenue		47	26	41
Reversal of provision for diminution in value of investment properties		—	8,824	—
Administrative expenses		<u>(728)</u>	<u>(1,398)</u>	<u>(444)</u>
PROFIT FROM OPERATING ACTIVITIES	(b)	6,275	8,582	11,056
Finance costs	(c)	<u>(19,116)</u>	<u>(20,549)</u>	<u>(15,689)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><u>(12,841)</u></u>	<u><u>(11,967)</u></u>	<u><u>(4,633)</u></u>

(a) Turnover and other revenue

Turnover represents gross rental income received and receivable during each of the Relevant Periods. Other revenue arising from interest income is disclosed in Section 3(b) below.

(b) Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	Year ended 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs	—	—	—
Auditors' remuneration	10	25	25
Depreciation	56	58	67
Operating lease rental on furniture and fixtures	—	23	187
Loss/(gain) on disposal of fixed assets	21	(2)	—
Interest income	(47)	(26)	(41)
Gross rental income	(8,512)	(2,785)	(13,256)
Less: Outgoings	1,556	1,655	1,797
Rental income	<u>(6,956)</u>	<u>(1,130)</u>	<u>(11,459)</u>

The principal activity of Super Homes is that of property investment which is carried out in Hong Kong, accordingly no further analysis of turnover or profit from operating activities by business and geographical segment is presented.

(c) Finance costs

	Year ended 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans	14,442	14,020	10,048
Interest on amount due to the immediate holding company	4,674	6,529	5,641
	<u>19,116</u>	<u>20,549</u>	<u>15,689</u>

(d) Directors' and five highest paid employees' remuneration

None of the directors received any fees or emoluments in respect of their services to Super Homes during the Relevant Periods.

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

During the Relevant Periods, Super Homes did not have any employee, except for the four directors.

(e) Tax

No profits tax has been provided as Super Homes had no assessable profits for the Relevant Periods.

The principal components of the deferred tax assets not recognised are as follows:

	Year ended 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax losses	<u>15,713</u>	<u>19,617</u>	<u>21,004</u>

The tax losses have not been included as an asset in the balance sheet as they are subject to agreement with the relevant tax authority.

The revaluation of Super Homes' investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

(f) Dividends

No dividends have been paid or declared by Super Homes during the Relevant Periods.

(g) Loss per share

No basic or diluted loss per share is presented as its inclusion is not considered meaningful for the purpose of this report.

(h) Related party transactions

Save as the transactions disclosed in Sections 4(d) and (e) below, Super Homes had the following material related party transactions during the Relevant Periods.

		Year ended 31st December,		
		1999	2000	2001
	Notes	HK\$'000	HK\$'000	HK\$'000
Interest expenses paid to the immediate holding company	(i)	4,674	6,529	5,641
Rental income received from a fellow subsidiary	(ii)	<u>120</u>	<u>48</u>	<u>120</u>

Notes:

- (i) Interest expenses paid to Hong Fok Investment Holding Company, Limited, an immediate holding company, was charged at Hong Kong dollar prime rate for the year ended 31st December, 1999 and at Hong Kong dollar prime rate minus 1% per annum for the two years ended 31st December, 2001.
- (ii) Rental income received from Supreme Homes Company Limited, a fellow subsidiary, was determined at rates mutually agreed between both parties.
- (iii) Super Homes was managed by the directors during the Relevant Periods. No fees or remuneration was paid by Super Homes in respect of their services. Their remuneration was received directly from Yat Yuen Hong Company Limited, a fellow subsidiary and included remuneration in respect of their services as directors to those companies. It is not practicable to quantify the amount of remuneration included therein which related to the services provided to Super Homes.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of Super Homes. Upon completion of the Agreement, the aforesaid mentioned transactions will be terminated.

4. BALANCE SHEETS

The following is a summary of the balance sheets of Super Homes as at the end of each of the Relevant Periods, prepared on the basis set out in Section 1 above:

		As at 31st December,		
		1999	2000	2001
	Notes	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS				
Fixed assets	(a)	190,207	264,178	243,135
CURRENT ASSETS				
Trade receivables		87	59	3
Other receivables	(b)	66	37	33
Cash and bank balances	(e)	638	472	1,044
		<u>791</u>	<u>568</u>	<u>1,080</u>
CURRENT LIABILITIES				
Other payables and accruals	(c)	2,429	3,583	3,935
Due to the immediate holding company	(d)	118,694	143,936	157,754
Interest-bearing bank loans	(e)	17,000	9,000	13,000
		<u>138,123</u>	<u>156,519</u>	<u>174,689</u>
NET CURRENT LIABILITIES		<u>(137,332)</u>	<u>(155,951)</u>	<u>(173,609)</u>
TOTAL ASSETS LESS				
CURRENT LIABILITIES		52,875	108,227	69,526
NON-CURRENT LIABILITIES				
Interest-bearing bank loans	(e)	(151,500)	(169,000)	(156,000)
		<u>(98,625)</u>	<u>(60,773)</u>	<u>(86,474)</u>
DEFICIENCY IN ASSETS				
Issued capital	(f)	—	—	—
Reserves	(g)	(98,625)	(60,773)	(86,474)
		<u>(98,625)</u>	<u>(60,773)</u>	<u>(86,474)</u>

(a) Fixed assets

	As at 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation:			
Investment properties	190,000	264,000	243,000
Equipment, furniture and fixtures	288	314	338
	<u>190,288</u>	<u>264,314</u>	<u>243,338</u>
Analysis of cost or valuation:			
Equipment, furniture and fixtures			
At cost	288	314	338
Investment properties			
At 31st December, 1999 valuation	190,000	–	–
At 31st December, 2000 valuation	–	264,000	–
At 31st December, 2001 valuation	–	–	243,000
	<u>190,288</u>	<u>264,314</u>	<u>243,338</u>
Accumulated depreciation:			
Investment properties	–	–	–
Equipment, furniture and fixtures	81	136	203
	<u>81</u>	<u>136</u>	<u>203</u>
Net book value:			
Investment properties	190,000	264,000	243,000
Equipment, furniture and fixtures	207	178	135
	<u>190,207</u>	<u>264,178</u>	<u>243,135</u>

The investment properties are situated in Hong Kong and are held under long term leases.

The investment properties are pledged to a bank to secure Super Homes' bank loans to the extent of approximately HK\$89 million included in secured bank loans as disclosed in Section 4(e) below.

The investment properties were revalued on 31st December, 2001 by FPD Savills (Hong Kong) Limited, independent professional valuers, at HK\$243,000,000 on an open market value basis.

(b) Other receivables

	As at 31st December,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Prepayments	2	2	2
Deposits	62	35	31
Other receivables	2	—	—
	<u>66</u>	<u>37</u>	<u>33</u>

(c) Other payables and accruals

	As at 31st December,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Accruals	1,300	138	588
Deposits received	1,123	1,651	1,943
Retention money payables	—	823	783
Other payables	6	971	621
	<u>2,429</u>	<u>3,583</u>	<u>3,935</u>

(d) Due to the immediate holding company

The balance is unsecured, has no fixed terms of repayment and is interest-bearing at Hong Kong dollar prime rate minus 1% per annum, except for an amount of HK\$49,249,000 which is interest-free. As at 31st December, 1999, the interest-bearing portion bore interest at Hong Kong dollar prime rate.

(e) Interest-bearing bank loans

	As at 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans – secured	168,500	178,000	169,000
Less: Portion classified as current liabilities	<u>(17,000)</u>	<u>(9,000)</u>	<u>(13,000)</u>
Long term portion	<u>151,500</u>	<u>169,000</u>	<u>156,000</u>
Bank loans are repayable:			
Within one year	17,000	9,000	13,000
In the second year	21,000	13,000	17,000
In the third to fifth years, inclusive	<u>130,500</u>	<u>156,000</u>	<u>139,000</u>
	<u>168,500</u>	<u>178,000</u>	<u>169,000</u>

The above bank loans are secured by:

- (i) a debenture incorporating a first legal mortgage over the investment properties of Super Homes situated in Hong Kong as disclosed in Section 4(a) above and a floating charge over all the assets, properties and undertakings of Super Homes;
- (ii) the assignment of insurance, sales and rental proceeds of the investment properties;
- (iii) subordination and assignment of all shareholders' loans to Super Homes in favour of the bank;
- (iv) a charge over the issued shares and bank balance of Super Homes of approximately HK\$1 million for the purpose of assignment of sales and rental proceeds;
- (v) a property situated in Singapore owned by a fellow subsidiary of Super Homes; and
- (vi) corporate guarantees given by a fellow subsidiary and the ultimate holding company of Super Homes.

Pursuant to the Agreement, the security on the property situated in Singapore owned by a fellow subsidiary of Super Homes and the corporate guarantee given by a fellow subsidiary will be released upon the repayment of the bank loan, and the corporate guarantee given by the ultimate holding company, Hong Fok, will be replaced by Winfoong after the completion of the Agreement.

(f) Share capital

	As at 31st December,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
<i>Authorised:</i>			
1,000 Class "A" ordinary shares of HK\$1 each	1	1	1
1,000 Class "B" non-voting shares of HK\$0.3 each	—	—	—
	<u>1</u>	<u>1</u>	<u>1</u>
<i>Issued and fully paid:</i>			
100 Class "A" ordinary shares of HK\$1 each	—	—	—
100 Class "B" non-voting shares of HK\$0.3 each	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>

Notes:

- (i)

On winding up, both Class "A" and Class "B" shares rank pari passu in sharing any surplus assets up to their respective amount of paid-up capital. However, Class "B" shares shall not be entitled to participate with Class "A" shares for any surplus assets remaining after paying off the paid-up capital to the two classes of shares.
- (ii)

Class "B" shares shall entitle the holders thereof to receive notice of general meetings but no right to vote at any general meetings of Super Homes unless a resolution is proposed affecting the rights or privileges of the holders of such Class "B" shares.

(g) Reserves

	Investment property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 1999	–	(85,784)	(85,784)
Net loss for the year	–	(12,841)	(12,841)
At 31st December, 1999 and beginning of year	–	(98,625)	(98,625)
Surplus on revaluation	49,819	–	49,819
Net loss for the year	–	(11,967)	(11,967)
At 31st December, 2000 and beginning of year	49,819	(110,592)	(60,773)
Deficit on revaluation	(21,068)	–	(21,068)
Net loss for the year	–	(4,633)	(4,633)
At 31st December, 2001	<u>28,751</u>	<u>(115,225)</u>	<u>(86,474)</u>

(h) Operating lease arrangements*(i) As lessor*

Super Homes leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits.

At 31st December, 2001, Super Homes had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year of approximately HK\$6,135,000.

(ii) As lessee

As at 31st December, 2001, Super Homes had total future minimum lease payments under non-cancellable operating leases in respect of furniture and fixtures falling due within one year of HK\$12,000.

(i) Contingent liabilities

As at 31st December, 2001, Super Homes did not have any material contingent liabilities.

(j) Distributable reserves

As at 31st December, 2001, Super Homes had no reserves available for distribution to its shareholders.

(k) Ultimate holding company

Hong Fok Corporation Limited, a company incorporated with limited liability and listed in the Republic of Singapore, is considered by the directors to be Super Homes' ultimate holding company as at the date of this report.

5. STATEMENTS OF MOVEMENTS IN EQUITY

The movements in the shareholders' equity of Super Homes for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

	Year ended 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	(85,784)	(98,625)	(60,773)
Surplus/(deficit) on revaluation of investment properties	—	49,819	(21,068)
Net loss from ordinary activities attributable to shareholders	(12,841)	(11,967)	(4,633)
At end of year	<u>(98,625)</u>	<u>(60,773)</u>	<u>(86,474)</u>

6. CASH FLOW STATEMENTS

The following is a summary of the cash flow statements of Super Homes for the Relevant Periods, prepared on the basis set out in Section 1 above:

		Year ended 31st December,		
		1999	2000	2001
	Note	HK\$'000	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	5,666	999	11,494
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		47	26	41
Interest paid		(19,116)	(20,549)	(15,689)
Net cash outflow from returns on investments and servicing of finance		(19,069)	(20,523)	(15,648)
TAX				
Hong Kong profits tax paid		—	—	—
INVESTING ACTIVITIES				
Proceeds from disposal of fixed assets		6	6	—
Purchases of fixed assets		(49)	(15,390)	(92)
Net cash outflow from investing activities		(43)	(15,384)	(92)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(13,446)	(34,908)	(4,246)
FINANCING ACTIVITIES				
Advance from the immediate holding company		26,946	43,810	13,853
Repayment of advance from the immediate holding company		(1,655)	(18,568)	(35)
New bank loans		—	15,000	—
Repayment of bank loans		(13,000)	(5,500)	(9,000)
Net cash inflow from financing activities		12,291	34,742	4,818
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,155)	(166)	572
Cash and cash equivalents at beginning of year		1,793	638	472
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>638</u>	<u>472</u>	<u>1,044</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		<u>638</u>	<u>472</u>	<u>1,044</u>

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	Year ended 31st December,		
	1999	2000	2001
	HK\$ '000	HK\$ '000	HK\$ '000
Profit from operating activities	6,275	8,582	11,056
Interest income	(47)	(26)	(41)
Depreciation	56	58	67
Reversal of provision for diminution in value of investment properties	—	(8,824)	—
Loss/(gain) on disposal of fixed assets	21	(2)	—
Decrease in trade receivables	94	28	56
Decrease/(increase) in other receivables	(13)	29	4
Increase/(decrease) in other payables and accruals	(720)	1,154	352
	<u> </u>	<u> </u>	<u> </u>
Net cash inflow from operating activities	<u>5,666</u>	<u>999</u>	<u>11,494</u>

(b) Analysis of changes in financing

	Interest bearing bank loans, secured	Due to the immediate holding company
	HK\$ '000	HK\$ '000
Balance at 1st January, 1999	181,500	93,403
Cash inflow/(outflow) from financing, net	<u>(13,000)</u>	<u>25,291</u>
Balance at 31st December, 1999 and at 1st January, 2000	168,500	118,694
Cash inflow from financing, net	<u>9,500</u>	<u>25,242</u>
Balance at 31st December, 2000 and at 1st January, 2001	178,000	143,936
Cash inflow/(outflow) from financing, net	<u>(9,000)</u>	<u>13,818</u>
Balance at 31st December, 2001	<u>169,000</u>	<u>157,754</u>

7. ADDITIONAL INFORMATION

As set out in the section 4(d) above, the amount due to the immediate holding company is interest-bearing at Hong Kong dollar prime rate for the year ended 31st December, 1999 and at Hong Kong dollar prime rate minus 1% per annum for the two years ended 31st December, 2001, except for an amount of HK\$49,249,000 which is interest-free.

Should the amount of HK\$49,249,000 be bearing interest at the same rate for the Relevant Periods, the effect on the net loss from ordinary activities attributable to shareholders for the Relevant Periods would have been as follows:

	Year ended 31st December,		
	1999	2000	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Net loss from ordinary activities attributable to shareholders	(12,841)	(11,967)	(4,633)
Add: Notional interest	(4,216)	(4,074)	(2,873)
Proforma adjusted net loss	<u>(17,057)</u>	<u>(16,041)</u>	<u>(7,506)</u>

The above notional interest is calculated for reference purpose only. It was agreed between Super Homes and the immediate holding company that no interest should be charged on the said amount.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Super Homes in respect of any period subsequent to 31st December, 2001.

Yours faithfully,
Ernst & Young
Certified Public Accountants
 Hong Kong

1. SHARE CAPITAL

The existing authorised and issued share capital of the Company are as follows:

HK\$

Authorised:

<u>2,000,000,000</u>	Shares	<u>100,000,000</u>
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Issued and fully paid:

<u>747,416,993</u>	Shares	<u>37,370,849.65</u>
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The issued share capital of the Company upon completion of the Open Offer will be as follows:

Issued and to be issued and fully paid:

HK\$

747,416,993	Shares	37,370,849.65
<u>747,416,993</u>	Offer Shares to be issued	<u>37,370,849.65</u>
<u>1,494,833,986</u>		<u>74,741,699.30</u>

All the Shares in issue and to be issued pursuant to the Open Offer rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

On 6th December, 2001, the Company announced a placing of 63,000,000 Shares to an independent third party, Praise Time Co. Ltd., to raise a total of approximately HK\$11 million, which was completed on 8th January, 2002. Save for the aforesaid, the Company has not issued any Shares since 31st December, 2001 (being the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company had 60,000,000 Options outstanding which are exercisable into 60,000,000 Shares at HK\$0.268 per Share (subject to adjustments) during the period up to 10th July, 2004.

Save for the outstanding Options mentioned above, the Company has no options, warrants and conversion rights convertible into Shares, and no share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

No share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale or any such capital.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated profit and loss account of the Group for each of the three years ended 31st December, 2001, the audited consolidated statement of recognised gains and loss for each of the three years ended 31st December, 2001, the audited consolidated balance sheet of the Group as at 31st December, 2001 and 2000, and the audited consolidated cash flow statement for each of the two years ended 31st December, 2001 together with accompanying notes as extracted from the respective annual reports of the Group.

APPENDIX III**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	<i>Notes</i>	Year ended 31st December		
		2001	2000	1999
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
TURNOVER	5	77,869,425	143,764,565	40,333,287
Cost of sales		(45,273,158)	(217,388,409)	(4,308,625)
Gross profit/(loss)		32,596,267	(73,623,844)	36,024,662
Other revenue		582,358	4,319,206	6,427,790
Operating and administrative expenses		(36,280,278)	(37,234,795)	(30,843,179)
Other operating expenses		(12,774,142)	(2,435,431)	(1,412,470)
LOSS FROM OPERATING ACTIVITIES	6	(15,875,795)	(108,974,864)	10,196,803
Finance costs	9	(27,204,394)	(41,338,944)	(45,212,637)
Gain on disposal of subsidiaries		—	—	2,417,258
Share of profit/(loss) of an associate		(3,420,376)	(4,109,720)	986,878
LOSS BEFORE TAX		(46,500,565)	(154,423,528)	(31,611,698)
Tax credit/(charge)	10	1,188,351	4,620,849	(667,533)
LOSS BEFORE MINORITY INTERESTS		(45,312,214)	(149,802,679)	(32,279,231)
Minority interests		(754,157)	(1,803,916)	836,012
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	11	(46,066,371)	(151,606,595)	(31,443,219)
BASIC LOSS PER SHARE	12	(6.73 cents)	(22.06 cents)	(4.55 cents)

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	<i>Notes</i>	Year ended 31st December		
		2001 <i>HK\$</i>	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Share of movements in reserves of an associate	28			
– Investment property reserve		(106,801,051)	47,375,627	74,232,387
– Exchange fluctuation reserve		2,089,079	(22,795,596)	(1,180,151)
Surplus/(deficit) on revaluation of investment properties	28	(50,000,826)	24,411,785	82,050,000
Surplus/(deficit) on revaluation of land and buildings	28	(5,846,622)	574,960	6,799,505
Gain on disposal of subsidiary		–	–	6,502,774
Exchange differences on translation of financial statements of foreign entities	28	<u>(42,881,691)</u>	<u>621,381</u>	<u>111,196</u>
Net gains/(losses) not recognised in the profit and loss account		(203,441,111)	50,188,157	168,515,711
Net loss for the year attributable to shareholders		<u>(46,066,371)</u>	<u>(151,606,595)</u>	<u>(31,443,219)</u>
Total recognised gains and losses		(249,507,482)	(101,418,438)	137,072,492
Goodwill eliminated directly against reserve		<u>–</u>	<u>–</u>	<u>(11,386)</u>
		<u><u>(249,507,482)</u></u>	<u><u>(101,418,438)</u></u>	<u><u>137,061,106</u></u>

CONSOLIDATED BALANCE SHEET

		31st December	
	<i>Notes</i>	2001	2000
		<i>HK\$</i>	<i>HK\$</i>
NON-CURRENT ASSETS			
Fixed assets	13	1,095,518,542	1,152,141,958
Property held for future development	14	80,000,000	80,000,000
Interest in an associate	16	431,619,833	584,455,309
Other long term assets	17	1,178,818	5,457,650
Long term investments	18	4,800,000	4,900,000
Pledged bank balances and time deposits	23	5,193,533	2,276,481
		<u>1,618,310,726</u>	<u>1,829,231,398</u>
CURRENT ASSETS			
Short term investments	18	134,520	250,800
Properties held for sale	19	106,078,431	153,268,734
Inventories		232,326	233,403
Construction contracts	20	1,062,554	1,062,554
Trade receivables	21	1,168,753	671,744
Tax recoverable		106,019	144,597
Other receivables	22	22,266,563	9,448,933
Cash and cash equivalents	23	1,980,164	3,078,644
		<u>133,029,330</u>	<u>168,159,409</u>
CURRENT LIABILITIES			
Trade payables	24	4,012,616	2,560,002
Tax payable		14,572,128	16,352,637
Other payables and accruals	25	21,686,776	25,036,637
Interest-bearing bank borrowings	26	11,640,000	60,714,710
		<u>51,911,520</u>	<u>104,663,986</u>
NET CURRENT ASSETS		<u>81,117,810</u>	<u>63,495,423</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,699,428,536	1,892,726,821
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	468,877,534	417,900,000
MINORITY INTERESTS		<u>2,186,071</u>	<u>(3,023,552)</u>
		<u>1,228,364,931</u>	<u>1,477,850,373</u>
CAPITAL AND RESERVES			
Issued capital	27	34,220,850	34,220,850
Reserves	28	1,194,144,081	1,443,629,523
		<u>1,228,364,931</u>	<u>1,477,850,373</u>

CONSOLIDATED CASH FLOW STATEMENT

		Year ended 31st December	
	Notes	2001	2000
		HK\$	HK\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	29(a)	21,327,603	97,537,713
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		212,968	792,840
Interest paid		(27,204,394)	(44,285,621)
Dividends from an associate		973,855	1,006,774
		<u> </u>	<u> </u>
Net cash outflow from returns on investments and servicing of finance		(26,017,571)	(42,486,007)
		<u> </u>	<u> </u>
TAX			
Hong Kong profits tax paid		(475,164)	(491,903)
Hong Kong profits tax refunded		28,898	—
		<u> </u>	<u> </u>
Taxes paid, net		(446,266)	(491,903)
		<u> </u>	<u> </u>
INVESTING ACTIVITIES			
Proceeds from disposal of fixed assets		238,400	899,793
Purchases of fixed assets		(1,639,141)	(1,590,666)
Repayment of loans receivable		1,234,949	18,534
Decrease/(increase) in pledged bank balance		(2,917,052)	1,995,508
Proceeds from disposal of listed investments		—	5,876,539
Purchases of listed investments		—	(7,421,506)
Purchases of long term investments		—	(5,845,125)
Net cash inflow from disposal of subsidiaries		—	4,500,000
Loan advances		—	(132,517)
		<u> </u>	<u> </u>
Net cash outflow from investing activities		(3,082,844)	(1,699,440)
		<u> </u>	<u> </u>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		(8,219,078)	52,860,363
		<u> </u>	<u> </u>

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

		Year ended 31st December	
	Notes	2001	2000
		HK\$	HK\$
FINANCING ACTIVITIES	29(b)		
New bank loans		345,000,000	63,167,000
Repayment of bank loans		(330,482,466)	(113,000,000)
Repurchase of own shares		–	(2,163,436)
Capital contributions by minority shareholders		4,088,223	–
Net cash inflow/(outflow) from financing activities		18,605,757	(51,996,436)
INCREASE IN CASH AND CASH EQUIVALENTS		10,386,679	863,927
Cash and cash equivalents at beginning of year		(9,536,066)	(11,130,029)
Effect of foreign exchange rate changes, net		1,129,551	730,036
CASH AND CASH EQUIVALENTS			
AT END OF YEAR		1,980,164	(9,536,066)
ANALYSIS OF BALANCES OF CASH AND CASH			
EQUIVALENTS			
Cash and bank balances		713,213	1,079,958
Time deposits		1,266,951	1,998,686
Bank overdrafts, unsecured		–	(12,614,710)
		1,980,164	(9,536,066)

APPENDIX III**FINANCIAL INFORMATION OF THE GROUP****BALANCE SHEET**

		31st December	
	<i>Notes</i>	2001	2000
		<i>HK\$</i>	<i>HK\$</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	15	<u>1,228,343,753</u>	<u>1,475,347,816</u>
CURRENT ASSETS			
Other receivables	22	219,653	74,680
Cash and cash equivalents	23	<u>1,964</u>	<u>2,805,484</u>
		<u>221,617</u>	<u>2,880,164</u>
CURRENT LIABILITIES			
Other payables and accruals	25	305,705	276,779
Tax payable		<u>—</u>	<u>223,093</u>
		<u>305,705</u>	<u>499,872</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(84,088)</u>	<u>2,380,292</u>
		<u><u>1,228,259,665</u></u>	<u><u>1,477,728,108</u></u>
CAPITAL AND RESERVES			
Issued capital	27	34,220,850	34,220,850
Reserves	28	<u>1,194,038,815</u>	<u>1,443,507,258</u>
		<u><u>1,228,259,665</u></u>	<u><u>1,477,728,108</u></u>

NOTES TO FINANCIAL STATEMENTS**1. CORPORATE INFORMATION**

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

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

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- SSAP 14 (Revised): “Leases”
- SSAP 18 (Revised): “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects of adopting these SSAPs and Interpretations which have had a significant effect on the Group’s accounting policies and on the amounts disclosed in these financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. The revised SSAP requirements has had no effect on the amounts previously reported in prior year financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 31 to these financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”) (continued)

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. The revised SSAP requirements has had no effect on the amounts previously reported in the prior year financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to these financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The revised SSAP requirements has had no effect on the accounts previously reported in the prior year financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have no effect on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. Negative goodwill is recognised in the profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to these financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill/negative goodwill arising from acquisitions in previous years which remains eliminated against/credited to reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 16 to these financial statements. The required new additional disclosures are included in notes 16 and 28 to these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in the prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”) (continued)

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 10: “Accounting for investments in associates”
- SSAP 17: “Property, plant and equipment”
- SSAP 21: “Accounting for interests in joint ventures”

These revised SSAPs requirements have had no effect on the amounts previously reported in the prior year financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of land and buildings, investment properties and short term equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company’s interests in subsidiaries are stated at cost less any impairment losses.

Associate

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

The Group’s share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group’s interests in associates are stated in the consolidated balance sheet at the Group’s share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in reserves, is included as part of the Group’s interest in an associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Goodwill/Negative goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

In prior years, goodwill/negative goodwill arising on acquisitions was eliminated against/credited to reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill/negative goodwill on acquisitions which occurred prior to 1st January, 2001, to remain eliminated against/credited to reserves. Goodwill/negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

The carrying amount of goodwill/negative goodwill, including goodwill/negative goodwill remaining eliminated against/credited to reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill/negative goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Goodwill/Negative goodwill** *(continued)*

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill/negative goodwill which has not been recognised in the profit and loss account and any relevant reserves, as appropriate. Any attributable goodwill/negative goodwill previously eliminated against/credited to reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Fixed assets and depreciation** *(continued)*

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

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

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than twenty years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Property held for future development

Property held for future development is stated at cost less any impairment losses.

Properties held for sale

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Construction contracts**

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

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

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

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. 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 those assets. The 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Deferred tax**

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

Foreign currencies

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

On consolidation, the financial statements of subsidiaries and an associate denominated in other currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Long term investments**

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

The fair values of such listed securities are their quoted market prices at the balance sheet date.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Short term investment

Short term investments in listed equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Revenue recognition**

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

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. The MPF Scheme has operated since 1st December, 2000. Contributions are made based on a percentage of the employees' relevant income as defined under the MPF Scheme and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

4. SEGMENT INFORMATION *(continued)*

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) Property investment and management;
- (b) Property construction and development; and
- (c) Horticultural services.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at terms agreed between the parties with reference to third party prices.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Property investment and management HK\$	Property construction and development HK\$	Horticultural services HK\$	Corporate and other HK\$	Eliminations HK\$	Consolidated HK\$
2001						
Segment revenue:						
Sales to external customers	35,072,583	39,494,832	3,302,010	–	–	77,869,425
Intersegment sales	2,938,333	2,037,702	–	–	(4,976,035)	–
Other revenue	–	–	–	369,390	–	369,390
Total revenue	<u>38,010,916</u>	<u>41,532,534</u>	<u>3,302,010</u>	<u>369,390</u>	<u>(4,976,035)</u>	<u>78,238,815</u>
Segment results	<u>8,770,818</u>	<u>(2,913,323)</u>	<u>(582,149)</u>	<u>(37,018,940)</u>	<u>15,654,831</u>	<u>(16,088,763)</u>
Interest income						212,968
Loss from operating activities						(15,875,795)
Finance costs						(27,204,394)
Share of loss of an associate	(3,420,376)	–	–	–	–	(3,420,376)
Loss before tax						(46,500,565)
Tax credit						1,188,351
Loss before minority interests						(45,312,214)
Minority interests						(754,157)
Net loss attributable to shareholders						<u>(46,066,371)</u>

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Property investment and management <i>HK\$</i>	Property construction and development <i>HK\$</i>	Horticultural services <i>HK\$</i>	Corporate and other <i>HK\$</i>	Eliminations <i>HK\$</i>	Consolidated <i>HK\$</i>
2000						
Segment revenue:						
Sales to external customers	140,329,689	–	3,434,876	–	–	143,764,565
Intersegment sales	2,508,000	2,248,994	–	–	(4,756,994)	–
Other revenue	–	–	–	3,526,366	–	3,526,366
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	<u>142,837,689</u>	<u>2,248,994</u>	<u>3,434,876</u>	<u>3,526,366</u>	<u>(4,756,994)</u>	<u>147,290,931</u>
Segment results	<u>(90,863,570)</u>	<u>(2,464,241)</u>	<u>(913,082)</u>	<u>(30,354,811)</u>	<u>14,828,000</u>	<u>(109,767,704)</u>
Interest income						<u>792,840</u>
Loss from operating activities						(108,974,864)
Finance costs						(41,338,944)
Share of loss of an associate	(4,109,720)	–	–	–	–	<u>(4,109,720)</u>
Loss before tax						(154,423,528)
Tax credit						<u>4,620,849</u>
Loss before minority interests						(149,802,679)
Minority interests						<u>(1,803,916)</u>
Net loss attributable to shareholders						<u>(151,606,595)</u>

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Property investment and management HK\$	Property construction and development HK\$	Horticultural services HK\$	Corporate and other HK\$	Eliminations HK\$	Consolidated HK\$
2001						
Segment assets	1,983,813,051	165,325,567	2,418,906	3,382,651,630	(4,219,288,931)	1,314,920,223
Interest in an associate	431,619,833	–	–	–	–	431,619,833
Unallocated assets	–	–	–	–	–	4,800,000
Total assets	<u>2,415,432,884</u>	<u>165,325,567</u>	<u>2,418,906</u>	<u>3,382,651,630</u>	<u>(4,219,288,931)</u>	<u>1,751,340,056</u>
Segment liabilities	<u>1,222,572,693</u>	<u>84,178,481</u>	<u>3,326,158</u>	<u>144,961,111</u>	<u>(934,249,389)</u>	<u>520,789,054</u>
Other segment information:						
Depreciation	728,669	–	47,179	1,316,321	–	2,092,169
Impairment losses recognised in the profit and loss account	12,228,252	–	–	216,280	–	12,444,532
Capital expenditure	<u>105,364</u>	<u>2,067,082</u>	<u>260,000</u>	<u>1,273,777</u>	<u>–</u>	<u>3,706,223</u>
2000						
Segment assets	2,112,381,275	204,870,501	1,996,123	3,263,645,270	(4,174,857,671)	1,408,035,498
Interest in an associate	584,455,309	–	–	–	–	584,455,309
Unallocated assets	–	–	–	–	–	4,900,000
Total assets	<u>2,696,836,584</u>	<u>204,870,501</u>	<u>1,996,123</u>	<u>3,263,645,270</u>	<u>(4,174,857,671)</u>	<u>1,997,390,807</u>
Segment liabilities	1,133,980,350	117,657,308	3,125,899	137,366,837	(882,181,118)	509,949,276
Bank overdrafts included in segment assets	–	12,614,710	–	–	–	12,614,710
Total liabilities	<u>1,133,980,350</u>	<u>130,272,018</u>	<u>3,125,899</u>	<u>137,366,837</u>	<u>(882,181,118)</u>	<u>522,563,986</u>
Other segment information:						
Depreciation	700,567	–	23,888	1,394,387	–	2,118,842
Impairment losses recognised in the profit and loss account	–	–	–	2,435,431	–	2,435,431
Capital expenditure	<u>772,569</u>	<u>5,312,971</u>	<u>27,499</u>	<u>790,598</u>	<u>–</u>	<u>6,903,637</u>

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong and Mainland China <i>HK\$</i>	Singapore <i>HK\$</i>	Eliminations <i>HK\$</i>	Consolidated <i>HK\$</i>
2001				
Segment revenue:				
Sales to external customers	<u>77,869,425</u>	<u>–</u>	<u>–</u>	<u>77,869,425</u>
Segment results	<u>(31,089,206)</u>	<u>(654,388)</u>	<u>15,654,831</u>	<u>(16,088,763)</u>
Other segment information:				
Segment assets	5,537,415,971	433,213,016	(4,219,288,931)	1,751,340,056
Capital expenditure	<u>3,706,223</u>	<u>–</u>	<u>–</u>	<u>3,706,223</u>
2000				
Segment revenue:				
Sales to external customers	<u>143,764,565</u>	<u>–</u>	<u>–</u>	<u>143,764,565</u>
Segment results	<u>(121,011,628)</u>	<u>(3,584,076)</u>	<u>14,828,000</u>	<u>(109,767,704)</u>
Other segment information:				
Segment assets	5,585,047,214	587,201,264	(4,174,857,671)	1,997,390,807
Capital expenditure	<u>6,903,637</u>	<u>–</u>	<u>–</u>	<u>6,903,637</u>

5. TURNOVER AND REVENUE

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

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

	2001 <i>HK\$</i>	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Turnover			
Property investment and management	35,072,583	140,329,689	36,090,786
Property construction and development	39,494,832	—	780,000
Horticultural services	3,302,010	3,434,876	3,462,501
	<u>77,869,425</u>	<u>143,764,565</u>	<u>40,333,287</u>
Other revenue			
Proceeds from disposal of listed investments	—	5,876,539	6,298,400
Interest income	212,968	792,840	4,014,538
Proceeds from disposal of fixed assets	238,400	899,793	26,061
Write-back of cost overprovided on construction projects	—	949,631	855,608
Others	130,990	1,959,455	1,311,237
	<u>582,358</u>	<u>10,478,258</u>	<u>12,505,844</u>
	<u><u>78,451,783</u></u>	<u><u>154,242,823</u></u>	<u><u>52,839,131</u></u>

6. LOSS FROM OPERATING ACTIVITIES

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

	2001 HK\$	2000 HK\$	1999 HK\$
Depreciation	2,092,169	2,118,842	1,978,884
Minimum lease payments under operating leases on land and buildings	143,308	181,358	1,144,404
Auditors' remuneration	364,000	364,000	366,109
Loss on disposal of property under development	—	108,494,734	—
Provision for impairment of loan receivable	3,650,000	—	—
Deficit on revaluation of land and buildings	—	—	227,296
Provision for impairment of properties held for sale	8,578,252	—	—
Provision for impairment of long term unlisted investments	100,000	945,125	—
Provision for impairment of short term listed investments	116,280	1,490,306	—
Staff costs (excluding directors' remuneration (note 7)):			
Salaries and allowances	13,265,618	11,753,334	11,029,313
Pension contributions	581,945	10,840	21,091
Total staff costs	13,847,563	11,764,174	11,050,404
Exchange losses/(gains), net	5,301	59,217	(12,253)
Loss/(gain) on disposal of fixed assets	84,540	(421,141)	146,084
Rental income, gross of HK\$33,181,811 (2000: HK\$33,507,110; 1999: HK\$34,143,924) less outgoings of HK\$3,656,300 (2000: HK\$3,439,605; 1999: HK\$3,583,565)	(29,525,511)	(30,067,505)	(30,560,359)
Interest income	(212,968)	(792,840)	(4,014,538)
Gain on disposal of short term listed investments	—	(196,139)	(246,407)

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2001	2000	1999
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Fees:			
Executive directors	—	—	—
Independent non-executive directors	200,000	200,000	200,000
	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Other emoluments of executive directors:			
Salaries, allowances and benefits in kind	5,060,987	5,156,362	5,232,106
Pensions scheme contributions	75,098	—	—
	<u>5,136,085</u>	<u>5,156,362</u>	<u>5,232,106</u>
	<u><u>5,336,085</u></u>	<u><u>5,356,362</u></u>	<u><u>5,432,106</u></u>

The emoluments disclosed above do not include the monetary value of rent-free accommodation provided to an executive director of the Company through a property owned by the Group. The monetary value of such residential accommodation provided to the director based on the tenancy agreement entered by two of the Group companies was HK\$960,000 (2000: HK\$1,080,000; 1999: HK\$1,080,000) during the year.

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$2,500,001 – HK\$3,000,000	1	1
	<u>7</u>	<u>7</u>

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

In the prior year, 15,000,000 shares options each were granted to Cheong Pin Chuan, Patrick, Cheong Kim Pong, Cheong Pin Seng and Cheong Sim Eng, directors of the Company at the consideration of HK\$1 per grant. No value in respect of the share options granted was charged to the profit and loss account in the prior year. Further details of share options are included in note 27 to the financial statements.

No share options were granted during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2000: two) non-director, highest paid employees are as follows:

	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Salaries and allowances	5,335,966	3,735,966
Pension scheme contributions	26,000	–
	<u>5,361,966</u>	<u>3,735,966</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2001	2000
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	–
	<u>2</u>	<u>2</u>

9. FINANCE COSTS

	Group		
	2001	2000	1999
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Interest on bank loans and overdrafts	27,204,394	44,285,621	43,596,687
Add: Interest on a convertible loan fully repaid during the year	–	–	1,615,950
Less: Interest capitalised	–	(2,946,677)	–
	<u>27,204,394</u>	<u>41,338,944</u>	<u>45,212,637</u>

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%; 1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2001	Group 2000	1999
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Company and subsidiaries:			
Provision for the year:			
Hong Kong	123,000	—	—
Under/(over)provision in prior years:			
Hong Kong	(1,418,665)	937,226	(96,145)
Elsewhere	—	(5,838,971)	—
	<u>(1,295,665)</u>	<u>(4,901,745)</u>	<u>(96,145)</u>
Share of tax attributable to an associate:			
Elsewhere	<u>107,314</u>	<u>280,896</u>	<u>763,678</u>
Tax charge/(credit) for the year	<u><u>(1,188,351)</u></u>	<u><u>(4,620,849)</u></u>	<u><u>667,533</u></u>

Tax losses have not been included as deferred tax asset in the balance sheet as it is subject to agreement with the relevant tax authority.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$249,468,443 (2000: HK\$21,172,028; 1999: HK\$ 56,929,914).

12. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$46,066,371 (2000: HK\$151,606,595; 1999: HK\$31,443,219) and the weighted average of 684,416,993 (2000: 687,224,026; 1999: 690,712,993) ordinary shares in issue during the year.

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

13. FIXED ASSETS

Group

	Land and buildings <i>HK\$</i>	Investment properties <i>HK\$</i>	Equipment <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
Cost or valuation:						
At beginning of year	45,371,748	1,102,800,000	2,401,331	7,198,710	6,079,659	1,163,851,448
Additions	–	826	207,466	90,849	1,340,000	1,639,141
Disposal	–	–	–	–	(437,239)	(437,239)
Revaluation deficit, net	(6,421,748)	(50,000,826)	–	–	–	(56,422,574)
Exchange realignment	–	–	(29,443)	–	–	(29,443)
At 31st December, 2001	<u>38,950,000</u>	<u>1,052,800,000</u>	<u>2,579,354</u>	<u>7,289,559</u>	<u>6,982,420</u>	<u>1,108,601,333</u>
Analysis of cost or valuation:						
At cost	–	–	2,579,354	7,289,559	6,982,420	16,851,333
At 31st December, 2001 valuation	<u>38,950,000</u>	<u>1,052,800,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,091,750,000</u>
	<u><u>38,950,000</u></u>	<u><u>1,052,800,000</u></u>	<u><u>2,579,354</u></u>	<u><u>7,289,559</u></u>	<u><u>6,982,420</u></u>	<u><u>1,108,601,333</u></u>
Accumulated depreciation:						
At beginning of year	–	–	1,519,388	4,796,919	5,393,183	11,709,490
Provided during the year	575,126	–	308,152	861,321	347,570	2,092,169
Disposal	–	–	–	–	(114,299)	(114,299)
Written back on revaluation	(575,126)	–	–	–	–	(575,126)
Exchange realignment	–	–	(29,443)	–	–	(29,443)
At 31st December, 2001	<u>–</u>	<u>–</u>	<u>1,798,097</u>	<u>5,658,240</u>	<u>5,626,454</u>	<u>13,082,791</u>
Net book value:						
At 31st December, 2001	<u><u>38,950,000</u></u>	<u><u>1,052,800,000</u></u>	<u><u>781,257</u></u>	<u><u>1,631,319</u></u>	<u><u>1,355,966</u></u>	<u><u>1,095,518,542</u></u>
At 31st December, 2000	<u><u>45,371,748</u></u>	<u><u>1,102,800,000</u></u>	<u><u>881,943</u></u>	<u><u>2,401,791</u></u>	<u><u>686,476</u></u>	<u><u>1,152,141,958</u></u>

The Group's land and buildings were revalued individually at 31st December, 2001 by FPD Savills (Hong Kong) Limited, an independent professional valuer, at an aggregate open market value of HK\$38,950,000. A revaluation deficit of HK\$5,846,622 resulting from the above valuation has been debited to the land and buildings revaluation reserve.

Had the Group's land and buildings been carried at carrying amount on the date of transfer or at cost less accumulated depreciation, they would have been included in the financial statements at HK\$38,137,501 (2000: HK\$38,666,432).

13. FIXED ASSETS *(continued)*

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

	Hong Kong <i>HK\$</i>
At valuation:	
Long term leases	38,200,000
Medium term leases	750,000
	<u>38,950,000</u>

The Group's investment properties were revalued on 31 December 2001 by FPD Savills (Hong Kong) Limited, an independent professional valuer, at HK\$1,052,800,000 on an open market value basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31 to these financial statements.

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

	Hong Kong <i>HK\$</i>	Elsewhere <i>HK\$</i>	Total <i>HK\$</i>
Long term leases	1,045,000,000	5,000,000	1,050,000,000
Medium term leases	<u>2,800,000</u>	<u>—</u>	<u>2,800,000</u>
	<u><u>1,047,800,000</u></u>	<u><u>5,000,000</u></u>	<u><u>1,052,800,000</u></u>

Certain of the Group's land and buildings and investment properties with a carrying value at the balance sheet date of approximately HK\$1,083,200,000 were pledged to secure certain bank loans granted to the Group.

Particulars of the Group's principal investment properties as at 31 December 2001 are as follows:

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

14. PROPERTY HELD FOR FUTURE DEVELOPMENT

	Group	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Cost	215,651,517	215,651,517
Less: Provision for impairment	(135,651,517)	(135,651,517)
	<u> </u>	<u> </u>
At 31 December	<u>80,000,000</u>	<u>80,000,000</u>

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

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares, at cost	1,418,163,324	1,418,163,324
Due from a subsidiary	79,180,429	77,684,492
	<u> </u>	<u> </u>
	1,497,343,753	1,495,847,816
Less: Provision for impairment	(269,000,000)	(20,500,000)
	<u> </u>	<u> </u>
	<u>1,228,343,753</u>	<u>1,475,347,816</u>

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

15. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration/ and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Allied Crown Limited	Hong Kong	HK\$2	–	100%	Property holding
Bossiney Limited	Hong Kong	Ordinary HK\$980 Non-voting deferred ⁽¹⁾ HK\$20	–	100%	Property holding
Cheung Kee Garden Limited *	Hong Kong	Ordinary HK\$100 Non-voting deferred ⁽¹⁾ HK\$450,000	–	100%	Provision of horticultural services
Giant Yield Limited	Hong Kong	Ordinary HK\$98 Non-voting deferred ⁽¹⁾ HK\$2	–	100%	Property holding
Hugoton Limited	Hong Kong	Ordinary HK\$980 Non-voting deferred ⁽¹⁾ HK\$20	–	100%	Property holding
Vision Asset Management Limited	Hong Kong	HK\$2	–	100%	Property holding
Winfoong Holding Limited	Hong Kong	HK\$105,000,000	–	100%	Investment holding
Winfoong Investment Limited	Hong Kong	HK\$285,931,246	–	100%	Investment holding
Xinhui Tangquan Real Estate Company Limited *	PRC	US\$7,365,356 ⁽²⁾	–	92%	Property development

* Audited by other auditors.

15. INTERESTS IN SUBSIDIARIES (continued)

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

- (1)

These non-voting deferred shares are entitled to a fixed non-cumulative dividend at the rate of 5% per annum for any financial year of the company in respect of which the audited net profit of the company available for dividends exceeds HK\$1,000,000,000.
- (2)

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

16. INTEREST IN AN ASSOCIATE

	Group	
	2001	2000
	HK\$	HK\$
Share of net assets	431,619,833	584,455,309
Market value of shares listed in the Republic of Singapore	84,296,589	147,239,191

Particulars of the associate, which is held through a wholly-owned subsidiary, are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activity
			2001	2000	
Hong Fok Corporation Limited * (“HFC”)	Corporate	Republic of Singapore	20.2%	20.2%	Investment holding

* Audited by other auditors.

16. INTEREST IN AN ASSOCIATE *(continued)*

As detailed in note 3 to these financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill/negative goodwill in respect of acquisitions which occurred prior to 1st January, 2001, to remain in reserves and be reviewed for impairment on an annual basis. The amount of negative goodwill remaining in reserves, arising from the acquisition of the associate, is HK\$141,398,603 (at cost, less impairment of HK\$314,082,019 which arose in prior years) as at 1st January, and 31st December, 2001.

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

Consolidated operating results for the year ended 31st December:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Turnover	<u>204,724,211</u>	<u>240,139,326</u>
Net loss for the year	<u>35,347,368</u>	<u>82,175,281</u>

Consolidated financial position at 31st December:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Current assets	244,842,105	291,896,629
Long term assets	<u>4,829,418,948</u>	<u>5,703,011,236</u>
Total assets	<u>5,074,261,053</u>	<u>5,994,907,865</u>
Current liabilities	(142,080,000)	(323,721,348)
Long term liabilities	<u>(2,199,414,737)</u>	<u>(2,162,575,281)</u>
Total liabilities	<u>(2,341,494,737)</u>	<u>(2,486,296,629)</u>
Shareholders' equity	<u>2,732,766,316</u>	<u>3,508,611,236</u>

Contingent liabilities:

As at 31st December 2001, HFC had given corporate guarantees to secure loan facilities granted to its subsidiaries amounted to HK\$2,246,240,000.

17. OTHER LONG TERM ASSETS

	Group	
	2001	2000
	HK\$	HK\$
Loans receivable	7,495,218	8,730,167
Less: Provision for impairment	(3,650,000)	—
	<u>3,845,218</u>	<u>8,730,167</u>
Unlisted debentures, at cost	1,110,000	1,110,000
	<u>4,955,218</u>	<u>9,840,167</u>
Less: Loans receivable classified as current assets – note 22	(3,776,400)	(4,382,517)
	<u>1,178,818</u>	<u>5,457,650</u>

As at 31st December, 2001, included in loans receivable is an amount of HK\$7,400,000 (2000: HK\$8,500,000) which was secured by a second mortgage over an investment property sold by the Group during the year ended 31st December, 1998. The loan, repayable by two equal instalments due on or before June 2001 and 2002, was classified as a current asset.

18. INVESTMENTS

	Group	
	2001	2000
	HK\$	HK\$
Long term investments:		
Unlisted equity investments, at cost	5,845,125	5,845,125
Less: Provision for impairment	(1,045,125)	(945,125)
	<u>4,800,000</u>	<u>4,900,000</u>
Short term investments:		
Listed equity investments, at market value:		
Hong Kong	<u>134,520</u>	<u>250,800</u>

19. PROPERTIES HELD FOR SALE

	Group	
	2001	2000
	HK\$	HK\$
At beginning of year	153,268,734	60,978,252
Transfer from properties under development	—	92,290,482
Additions	2,067,082	—
Disposals	(40,679,133)	—
Less: Provision for impairment	(8,578,252)	—
	<u>106,078,431</u>	<u>153,268,734</u>

19. PROPERTIES HELD FOR SALE *(continued)*

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

Location	Use	Gross floor area <i>sq. ft.</i>	Percentage of interest attributable to the Group
Unsold units of Fortress Heights 38A Fort Street, North Point, Hong Kong	Residential	15,832	100%
Rooms 802-805, 9 Queen's Road Central, Hong Kong	Commercial	7,890	100%

20. CONSTRUCTION CONTRACTS

	Group	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Cost plus attributable profits less foreseeable losses	75,800,809	75,800,809
Progress payments received and receivable	(74,738,255)	(74,738,255)
	<u>1,062,554</u>	<u>1,062,554</u>
Gross amount due from contract customers	<u>1,062,554</u>	<u>1,062,554</u>

21. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	Group			
	2001		2000	
	Balance	Percentage	Balance	Percentage
	<i>HK\$</i>		<i>HK\$</i>	
Current	1,040,653	89	638,813	95
1 – 3 months	124,771	11	26,381	4
4 – 6 months	2,136	–	6,550	1
7 – 12 months	1,193	–	–	–
	<u>1,168,753</u>	<u>100</u>	<u>671,744</u>	<u>100</u>

The Group's trade receivables are normally invoiced with credit terms of 30 to 60 days of issuance.

APPENDIX III**FINANCIAL INFORMATION OF THE GROUP****22. OTHER RECEIVABLES**

	Group		Company	
	2001	2000	2001	2000
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Prepayments	1,004,976	839,285	219,653	74,680
Loans receivable – note 17	3,776,400	4,382,517	–	–
Tax reserve certificate	14,449,128	–	–	–
Deposits and other debtors	2,698,308	3,889,380	–	–
Retention money receivable	337,751	337,751	–	–
	<u>22,266,563</u>	<u>9,448,933</u>	<u>219,653</u>	<u>74,680</u>

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES AND TIME DEPOSITS

	Group		Company	
	2001	2000	2001	2000
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cash and bank balances	5,906,746	2,336,212	1,964	44
Time deposits	1,266,951	3,018,913	–	2,805,440
	<u>7,173,697</u>	<u>5,355,125</u>	<u>1,964</u>	<u>2,805,484</u>
Less: Pledged bank balances and time deposits for long term bank loans	<u>(5,193,533)</u>	<u>(2,276,481)</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents	<u>1,980,164</u>	<u>3,078,644</u>	<u>1,964</u>	<u>2,805,484</u>

24. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Group		2000	
	2001		Balance	Percentage
	Balance	Percentage	HK\$	
	<i>HK\$</i>			
Current	1,515,209	38	234,462	9
1 – 3 months	22,721	–	–	–
4 – 6 months	34,625	1	–	–
7 – 12 months	89,971	2	–	–
Over 1 year	2,350,090	59	2,325,540	91
	<u>4,012,616</u>	<u>100</u>	<u>2,560,002</u>	<u>100</u>

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
Accruals	5,184,645	7,223,060	305,705	276,779
Deposits received	6,229,203	6,209,344	–	–
Retention money payable	6,135,080	8,423,836	–	–
Other liabilities	4,137,848	3,180,397	–	–
	<u>21,686,776</u>	<u>25,036,637</u>	<u>305,705</u>	<u>276,779</u>

26. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001	2000
	HK\$	HK\$
Bank overdrafts, unsecured	<u>–</u>	<u>12,614,710</u>
Bank loans, secured	480,517,534	466,000,000
Less: Portion classified as current liabilities	<u>(11,640,000)</u>	<u>(48,100,000)</u>
Long term portion	<u>468,877,534</u>	<u>417,900,000</u>
Bank loans and overdrafts are repayable:		
Within one year	11,640,000	60,714,710
In the second year	84,217,534	260,640,000
In the third to fifth years, inclusive	384,660,000	40,680,000
Beyond five years	<u>–</u>	<u>116,580,000</u>
	<u>480,517,534</u>	<u>478,614,710</u>

The Group's bank loans are secured by:

- (i) fixed charges over certain of the Group's land and buildings, investment properties, and properties held for sale situated in Hong Kong which have carrying values at the balance sheet date of HK\$38,200,000, HK\$1,045,000,000 and HK\$105,478,431, respectively;
- (ii) assignment of insurance, sale and rental proceeds of the land and buildings, investment properties and a property held for sale situated in Hong Kong;
- (iii) charges over certain of the Group's bank balances of approximately HK\$5,194,000 for the purpose of assignment of sales and rental proceeds and issued shares of certain wholly-owned subsidiaries of the Group;

26. INTEREST-BEARING BANK BORROWINGS (continued)

- (iv) subordination and assignment of inter-group and shareholders’ loans to certain wholly-owned subsidiaries of the Group in favour of the banks;
- (v) obligation of HFC to obtain prior written consent from a bank for the transfer of or change in ownership of the Company;
- (vi) floating charges over the assets of Hugoton Limited, Vision Asset Management Limited, wholly-owned subsidiaries of the Group; and
- (vii) corporate guarantees given by the Company.

27. SHARE CAPITAL

Shares

	Company	
	2001	2000
	HK\$	HK\$
Authorised:		
2,000,000,000 ordinary shares of HK\$0.05 each	100,000,000	100,000,000
Issued and fully paid:		
684,416,993 ordinary shares of HK\$0.05 each	34,220,850	34,220,850

Share options

On 14th October, 1996, the Company adopted a share option scheme (the “Scheme”) for the purpose of providing an opportunity for key executives, including the directors, who have contributed significantly to the growth and prosperity of the Group to participate in the equity of the Company. Eligible participants of the Scheme include the directors and employees of the Company and its subsidiaries. The Scheme became effective on 14th October, 1996 and, unless otherwise cancelled or amended, will remain in force until 10th July, 2004.

The maximum number of shares in respect of which share options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. The maximum number of shares in respect of which share options may be granted to any one employee may not exceed 25% of the maximum aggregate number of shares in respect of which share options may be granted under the Scheme.

The exercise price of the share options is determined at the higher of the nominal value of the Company’s share and an amount not less than 80% of the average closing price of the Company’s shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant of the share option.

27. SHARE CAPITAL (continued)

Share options (continued)

The offer of a grant of share options may be accepted within 21 days from the date of offer upon payment of a nominal consideration of HK\$1 in total by the grantee.

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

Date of offer of grant	Exercise price per share	Exercise period	Number of options at beginning and end of year
3rd January, 2000	HK\$0.268	3rd January, 2000 to 10th July, 2004	60,000,000

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

Subsequent to the balance sheet date, on 25th March, 2002, a notice of special general meeting was issued to propose the termination of the Scheme and the adoption of a new share option scheme which will comply with the requirements of the new Chapter 17 of the Listing Rules. The proposals are subject to the shareholders’ approval at the special general meeting to be held on 15th April, 2002.

APPENDIX III

FINANCIAL INFORMATION OF THE GROUP

28. RESERVES

Group

	Share premium HK\$	Contributed surplus HK\$	Land and buildings revaluation reserve HK\$	Investment property revaluation reserve HK\$	Capital reserve HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1st January, 2000								
As previously reported	86,982,670	618,107,853	6,799,505	523,248,877	471,406,109	(131,098,565)	(29,439,259)	1,546,007,190
Prior years adjustment	–	–	–	314,082,019	(326,799,815)	–	12,717,796	–
At 1st January, 2000 (As restated)	86,982,670	618,107,853	6,799,505	837,330,896	144,606,294	(131,098,565)	(16,721,463)	1,546,007,190
Premium on repurchases of own shares	(1,848,636)	–	–	–	–	–	–	(1,848,636)
Surplus on revaluation	–	–	574,960	24,411,785	–	–	–	24,986,745
Exchange realignment	–	–	–	–	–	621,381	–	621,381
Net loss for the year	–	–	–	–	–	–	(151,606,595)	(151,606,595)
Share of movements in reserves of an associate	–	–	–	47,375,627	889,407	(22,795,596)	–	25,469,438
At 31st December, 2000 and beginning of year (as restated)	85,134,034	618,107,853	7,374,465	909,118,308	145,495,701	(153,272,780)	(168,328,058)	1,443,629,523
Deficit on revaluation	–	–	(5,846,622)	(50,000,826)	–	–	–	(55,847,448)
Exchange realignment	–	–	–	–	–	(42,881,691)	–	(42,881,691)
Net loss for the year	–	–	–	–	–	–	(46,066,371)	(46,066,371)
Share of movements in reserves of an associate	–	–	–	(106,801,051)	22,040	2,089,079	–	(104,689,932)
At 31st December, 2001	<u>85,134,034</u>	<u>618,107,853</u>	<u>1,527,843</u>	<u>752,316,431</u>	<u>145,517,741</u>	<u>(194,065,392)</u>	<u>(214,394,429)</u>	<u>1,194,144,081</u>
Reserves retained by:								
Company and subsidiaries	85,134,034	618,107,853	1,527,843	738,050,082	141,387,217	(182,829,300)	(189,694,725)	1,211,683,004
Associate	–	–	–	14,266,349	4,130,524	(11,236,092)	(24,699,704)	(17,538,923)
At 31st December, 2001	<u>85,134,034</u>	<u>618,107,853</u>	<u>1,527,843</u>	<u>752,316,431</u>	<u>145,517,741</u>	<u>(194,065,392)</u>	<u>(214,394,429)</u>	<u>1,194,144,081</u>
Company and subsidiaries	85,134,034	618,107,853	7,374,465	788,050,908	141,387,217	(139,947,609)	(148,120,346)	1,351,986,522
Associate	–	–	–	121,067,400	4,108,484	(13,325,171)	(20,207,712)	91,643,001
At 31st December, 2000	<u>85,134,034</u>	<u>618,107,853</u>	<u>7,374,465</u>	<u>909,118,308</u>	<u>145,495,701</u>	<u>(153,272,780)</u>	<u>(168,328,058)</u>	<u>1,443,629,523</u>

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

28. RESERVES *(continued)*

The prior year adjustment arose as a result of adoption of new SSAP 30 and Interpretation 13. Further details about the capital reserve are included in note 16 to the financial statements.

Company

	Share premium <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 31st January, 2000	86,982,670	1,386,580,996	(7,035,744)	1,466,527,922
Premium on repurchase of own shares	(1,848,636)	–	–	(1,848,636)
Net loss for the year	–	–	(21,172,028)	(21,172,028)
At 31st December, 2000 and beginning of year	85,134,034	1,386,580,996	(28,207,772)	1,443,507,258
Net loss for the year	–	–	(249,468,443)	(249,468,443)
At 31st December, 2001	<u>85,134,034</u>	<u>1,386,580,996</u>	<u>(277,676,215)</u>	<u>1,194,038,815</u>

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

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow from operating activities

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Loss from operating activities	(15,875,795)	(108,974,864)
Provision for impairment of long term unlisted investments	100,000	945,125
Provision for impairment of short term listed investments	116,280	1,490,306
Provision for impairment of loan receivable	3,650,000	–
Interest income	(212,968)	(792,840)
Depreciation	2,092,169	2,118,842
Gain on disposal of short term listed investments	–	(196,139)
Loss/(gain) on disposal of fixed assets	84,540	(421,141)
Decrease in properties under development	–	211,762,226
Decrease/(increase) in properties held for sale	47,190,303	(2,366,294)
Decrease in inventories	1,077	8,653
Decrease/(increase) in trade receivables	(497,009)	6,295,501
Decrease/(increase) in prepayments	(165,691)	23,439
Increase in deposits and other debtors	(13,258,056)	(86,328)
Increase/(decrease) in trade payables	1,452,614	(623,251)
Decrease in accruals	(2,038,415)	(11,471,400)
Increase/(decrease) in deposits received	19,859	(599,563)
Decrease in retention money payable	(2,288,756)	(589,417)
Increase in other liabilities	957,451	1,014,858
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>21,327,603</u>	<u>97,537,713</u>

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Issued capital, share premium and contributed surplus HK\$	Bank loans, secured HK\$	Minority interests HK\$
Balance at 1st January, 2000	739,626,173	515,833,000	(5,144,988)
Cash outflow from financing, net	(2,163,436)	(49,833,000)	–
Foreign exchange realignment	–	–	317,520
Share of profit for the year	–	–	1,803,916
Balance at 31st December, 2000 and beginning of year	737,462,737	466,000,000	(3,023,552)
Cash inflow from financing, net	–	14,517,534	4,088,223
Foreign exchange realignment	–	–	367,243
Share of profit for the year	–	–	754,157
Balance at 31st December, 2001	<u>737,462,737</u>	<u>480,517,534</u>	<u>2,186,071</u>

30. CONTINGENT LIABILITIES

- (a) At the balance sheet date, the Company had given unconditional guarantees to banks to secure loan facilities granted to subsidiaries to the extent of approximately HK\$649 million (2000: HK\$654 million). The extent of such facilities utilised by the subsidiaries at the balance sheet date amounted to approximately HK\$481 million (2000: HK\$466 million).
- (b) At the balance sheet date, the Group had given corporate guarantees to banks for issuing letters of indemnity to a third party in respect of contracts undertaken by certain subsidiaries, and to indemnify the repayment of certain mortgage loans amounting to approximately HK\$30.4 million (2000: HK\$30 million).

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Within one year	16,691,502	14,606,175
In the second to fifth years, inclusive	800,965	242,800
	<u>17,492,467</u>	<u>14,848,975</u>

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Within one year	87,500	190,540
In the second to fifth years, inclusive	—	111,148
	<u>87,500</u>	<u>301,688</u>

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following commitments at the balance sheet date:

	Group	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Capital commitments:		
Contracted for	1,949,750	2,734,947

At the balance sheet date, the Company had no material commitments.

33. RELATED PARTY TRANSACTION

As at 31 December 2000, HFC, a substantial shareholder of the Company, provided corporate guarantee to a bank to secure a bank overdraft facility of a subsidiary totalling HK\$12,614,710 at no consideration. The corporate guarantee from HFC was released upon the cancellation of the bank overdraft facility of the subsidiary during the year.

34. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events occurred:

- (a) In December, 2001, the Company entered into a subscription agreement to place 63 million new shares, representing approximately 8.4% of the enlarged share capital of the Company, to Praise Time Co., Ltd., an independent third party, at HK\$0.175 per share, to raise funds of approximately HK\$11 million. The proceeds of the placement are intended to be used as general working capital of the Group. The subscription was completed in January 2002.
- (b) The Company proposed to raise approximately HK\$145.7 million, before expenses, by issuing 747,416,993 new shares at a price of HK\$0.195 per share ("Offer Share") by way of open offer on the basis of one Offer Share for every existing share held ("Open Offer"). The net proceeds from the Open Offer of approximately HK\$71.3 million will be used for the acquisition of the entire issued share capital of and a shareholder's loan to Super Homes Limited ("Super Homes"), a wholly-owned subsidiary of HFC, and the remaining balance of approximately HK\$70.7 million will be used for the repayment of part of the bank loan of Super Homes.

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2002.

3. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSET VALUE

Set out below is pro forma statement of the unaudited adjusted consolidated net tangible asset value of the Enlarged Group based on the audited consolidated net tangible assets of the Group as at 31st December, 2001 and adjusted as follows:

	<i>HK\$ '000</i>
Audited consolidated net tangible assets of the Group as at 31st December, 2001	1,228,365
Less: Deficit on revaluation of the Property as at 31st January, 2002	(2,000)
Add: Net proceeds from placing of 63 million new Shares completed in January 2002	10,800
Pro forma unaudited adjusted consolidated net tangible assets before the Open Offer and the Acquisition	1,237,165
Add: Estimated net proceeds from the Open Offer	142,000
Pro forma unaudited adjusted consolidated net tangible assets after the Open Offer	1,379,165
Less: Consideration paid for the Acquisition	(71,280)
Add: Net asset value of Super Homes attributable to the Group Audited net deficiencies of Super Homes as at 31st December, 2001	(86,474)
Assignment of shareholders' loan of Super Homes	157,754
Pro forma unaudited adjusted consolidated net tangible asset value of the Enlarged Group after the Open Offer and the Acquisition	(Note) <u><u>1,379,165</u></u>
Pro forma unaudited adjusted consolidated net tangible assets per Share before the Open Offer and the Acquisition based on 747,416,993 Shares in issue as at the Latest Practicable Date	<u><u>HK\$1.655</u></u>
Pro forma unaudited adjusted consolidated net tangible assets per Share after the Open Offer and the Acquisition based on 1,494,833,986 Shares then in issue	<u><u>HK\$0.923</u></u>

Note: This amount is different from the amount disclosed in the Circular dated 25th March, 2002 by approximately HK\$136 million. The difference mainly represents the loss attributable to shareholders, movement of exchange fluctuation reserve, movement of share of reserves of an associates for the six months ended 31st December, 2001.

4. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED COMBINED NET ASSETS OF THE ENLARGED GROUP FOLLOWING THE OPEN OFFER AND THE ACQUISITION

The following is the pro forma unaudited adjusted statement of the combined net assets of the Enlarged Group based on the audited consolidated balance sheet of the Group as at 31st December, 2001 and the audited balance sheet of Super Homes as at 31st December, 2001, and on the basis that the Acquisition, the Open Offer and the repayment of one of the bank loans and further drawdown of another bank loan will be completed:

	(Audited) As at 31st December, 2001 Winfoong Group HK\$'000	(Audited) As at 31st December, 2001 Super Homes HK\$'000	Adjustments HK\$'000	Pro forma combined HK\$'000
Fixed assets	1,095,518	243,135	(2,000) ⁽¹⁾	1,336,653
Property held for future development	80,000	—	—	80,000
Investment in an associate	431,620	—	—	431,620
Other long term assets	1,179	—	—	1,179
Long term investments	4,800	—	—	4,800
Pledged bank balances and time deposits	5,194	—	—	5,194
Current assets	133,029	1,080	10,800 ⁽²⁾ 142,000 ⁽³⁾ (71,280) ⁽³⁾ (80,000) ⁽⁴⁾ 33,000 ⁽⁴⁾	168,629
Current liabilities	(51,911)	(16,935)	—	(68,846)
Net current assets/(liabilities)	81,118	(15,855)		99,783
Total assets less current liabilities	1,699,429	227,280		1,959,229
Long term bank loan	(468,878)	(156,000)	80,000 ⁽⁴⁾ (33,000) ⁽⁴⁾	(577,878)
Due to group companies	—	(157,754)	157,754 ⁽⁵⁾	—
Minority interests	(2,186)	—	—	(2,186)
Net assets/(deficiencies)	1,228,365	(86,474)		1,379,165

- (1) To reflect deficit on revaluation of the Property as at 31st January, 2002.
- (2) To reflect the proceeds from placing of 63,000,000 new Shares completed in January 2002.
- (3) To reflect the net proceeds from the Open Offer and payment for the Acquisition.
- (4) These adjustments represent the repayment of one of the bank loans and further drawdown of another bank loan.
- (5) The adjustment represents elimination of intercompany balances on combination.

5. MATERIAL CHANGE

Save as disclosed in this document, the Directors were not aware of any material change in the financial or trading position or prospects of the Group since 31st December, 2001, the date to which the latest audited consolidated financial statements of the Group were made up.

6. INDEBTEDNESS

Borrowings

As at the close of business on 28th February, 2002, being the latest practicable date for ascertaining information regarding this indebtedness statement, the Group had outstanding secured bank loans of approximately HK\$471.5 million.

Guarantee and security

As at 28th February, 2002, the Group had aggregate available banking facilities of approximately HK\$622.5 million, of which approximately HK\$471.5 million had been utilised.

These banking facilities are secured by:

- (i) fixed charges over certain of the Group's land and buildings, investment properties, and properties held for sale situated in Hong Kong which have carrying values as at 31st December, 2001 of approximately HK\$38.2 million, HK\$1,045 million and HK\$105.5 million, respectively;
- (ii) assignment of insurance, sale and rental proceeds of the land and buildings, investment properties and a property held for sale situated in Hong Kong;
- (iii) charges over certain of the Group's bank balances of approximately HK\$6 million for the purpose of assignment of sales and rental proceeds and issued shares of certain wholly-owned subsidiaries of the Group;

- (iv) obligation of Hong Fok to obtain prior written consent from a bank for transfer or change in ownership of the Company;
- (v) subordination and assignment of inter group and shareholders' loans to certain wholly-owned subsidiaries of the Group in favour of the banks;
- (vi) floating charges over the assets of certain wholly-owned subsidiaries of the Group; and
- (vii) corporate guarantee given by the Company.

Contingent liabilities

As at 28th February, 2002, the Group had given corporate guarantees to banks for issuing letters of indemnity to a third party in respect of contracts undertaken by certain subsidiaries, and to guarantee the repayment of certain mortgage loans amounting to approximately HK\$30.4 million.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not, at the close of business of 28th February, 2002, have any mortgages, charges, debentures, loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase of finance lease commitments, guarantees or other material contingent liabilities.

7. WORKING CAPITAL

The Directors are of the opinion that after taking into account of the Enlarged Group's present available banking facilities and the estimated net proceeds of the Open Offer, the Enlarged Group has sufficient working capital for its present requirements in the absence of unforeseen circumstances.

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, opinions expressed in this prospectus have been arrived at after due and careful consideration and there are no other facts not contained in this prospectus, the omission of which would make any statement in this prospectus misleading.

2. PARTICULARS OF DIRECTORS

(i) Executive Directors

Name	Address
Cheong Pin Chuan, Patrick (Chairman)	Magazine Height, 17 Magazine Gap Road Hong Kong
Cheong Kim Pong	6 Victoria Park Close, Singapore 266554
Cheong Pin Seng	34 Oxley Garden, Oxley Rise Singapore 238765
Cheong Sim Eng	No. 3 Chatsworth Park, Singapore 249809

(ii) Non-executive Directors

Kan Fook Yee	Block 8, No. 8 Mount Kellett Road The Peak, Hong Kong
Lai Hing Chiu, Dominic	Flat B, 3/F., Vivian Court, 18-22 Mount Kellett Road, The Peak, Hong Kong
Lim Ghee	5 Oxley Rise, Singapore 238694

Cheong Pin Chuan, Patrick, aged 52, is the chairman and managing director of the Company. Mr. Cheong is a member of the Australian Society of Certified Practising Accountants and the Hong Kong Society of Accountants. He joined the Group in 1991 and was appointed as a director of the Company in 1996. He has over 29 years' experience in property development. He is a director of Hong Fok.

Cheong Kim Pong, aged 59, is an executive Director. Mr. Cheong joined the Group in 1991 and was appointed a director of the Company in 1996. He has over 38 years' experience in construction management and real estate development. He is a director of Hong Fok.

Cheong Pin Seng, aged 51, is an executive Director. Mr. Cheong joined the Group in 1991 and was appointed a director of the Company in 1996. He has over 29 years' experience in property development in Singapore. He is a director of Hong Fok.

Cheong Sim Eng, aged 41, is an executive Director. Mr. Cheong graduated from the Chaminade University of Honolulu with a Bachelor of Arts degree. He joined the Group in 1991 and was appointed a director of the Company in 1996. He has over 16 years' experience in the construction industry. He is a director of Hong Fok.

Kan Fook Yee, aged 65, is an independent non-executive Director and a member of the audit committee of the Company. He is a fellow member of the Hong Kong Institute of Surveyors, the Royal Institute of Chartered Surveyors and the Chartered Institute of Arbitrators. He was appointed an independent non-executive director of the Company in 1998. He has over 37 years' experience in the field of surveying. He is also a representative of the National People's Congress of the People's Republic of China.

Lai Hing Chiu, Dominic, aged 55, is an independent non-executive Director and a member of the audit committee of the Company. He is a practising solicitor in Hong Kong and has also been admitted as a solicitor in England, Australia and Singapore. He joined the Group in 1994 and was appointed as an independent non-executive director of the Company in 1996. He has over 29 years' experience as a solicitor.

Lim Ghee, aged 90, is a non-executive Director. She joined the Group in 1991 and was appointed a non-executive director of the Company in 1996. She is a director of Hong Fok. Madam Lim Ghee is the mother of Mr. Cheong Kim Pong, Mr. Cheong Pin Chuan, Patrick, Mr. Cheong Pin Seng and Mr. Cheong Sim Eng.

3. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

Principal place of business in Hong Kong	Room 801 9 Queen's Road Central Hong Kong
Registered office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Financial adviser	Somerley Limited Suite 3108, One Exchange Square 8 Connaught Place Central Hong Kong
Underwriter	Hong Fok Investment Holding Company, Limited Room 801 9 Queen's Road Central Hong Kong
Legal advisers to the Company and the Open Offer	<i>On Hong Kong law:</i> Iu, Lai & Li 20th Floor, Gloucester Tower The Landmark Central Hong Kong <i>On Bermuda law:</i> Appleby Spurling & Kempe 5511 The Center 99 Queen's Road Central Hong Kong
Auditors	Ernst & Young <i>Certified Public Accountants</i> 15th Floor, Hutchison House 10 Harcourt Road Central Hong Kong

Principal bankers	Nanyang Commercial Bank, Limited 151 Des Voeux Road Central Hong Kong United Overseas Bank Limited 5/F., Edinburgh Tower, The Landmark 15 Queen's Road Central Hong Kong
Principal share registrar and transfer office	Butterfield Corporate Service Limited Rosebank Centre 11 Bermudiana Road Hamilton Bermuda
Hong Kong branch share registrar and transfer office	Central Registration Hong Kong Limited 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Authorised representatives	Cheong Pin Chuan, Patrick Magazine Heights 17 Magazine Gap Road Hong Kong Lam Wai Han, Miranda 16C, Block 22 Baguio Villa 555 Victoria Road Hong Kong

4. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company or its associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required to be entered into the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

(i) Shares

(a) Interests in the Company

Name of Director	Number of Shares held and nature of interest
	Corporate
Cheong Pin Chuan, Patrick	281,453,392
Cheong Kim Pong	281,453,392
Cheong Pin Seng	281,453,392
Cheong Sim Eng	281,453,392
Lim Ghee	281,453,392

Note: The abovenamed Directors are deemed to have corporate interests in the shares in the Company by virtue of their beneficial interests in the shares in Hong Fok, a substantial Shareholder.

(b) Interests in an associated corporation – Hong Fok

Name of Director	Number of shares in Hong Fok held and nature of interest			
	Corporate <i>Note (a)</i>	Personal	Family	Other <i>Note (b)</i>
Cheong Pin Chuan, Patrick	88,054,912	5,163,140	1,125,300	121,336,000
Cheong Kim Pong	88,054,912	2,571,980	503,000	121,336,000
Cheong Pin Seng	88,048,312	2,752,376	101,200	121,336,000
Cheong Sim Eng	21,877,512	55,036,000	207,000	121,336,000
Lim Ghee	–	6,619,092	–	121,336,000

Notes:

- These shares are beneficially held by a number of companies in which the Directors have beneficial interests.
- These shares are beneficially held by Winfoong Holding Limited, a wholly-owned subsidiary of the Company. The Directors are deemed to have interests in the shares in Hong Fok by virtue of their direct and indirect interests in the Company.

Save as disclosed above, as at the Latest Practicable Date, no Directors had or deemed to have any interests in the share capital of the Company or its associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required to be entered into the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(ii) Options

The Company has adopted a share option scheme under which the Directors may invite any executive Director to take up options to subscribe for Shares. As at the Latest Practicable Date, the following Options are outstanding:

Name of Director	No. of Options	Exercise price HK\$	Exercise period On or before
Cheong Pin Chuan, Patrick	15,000,000	0.268	10th July, 2004
Cheong Sim Eng	15,000,000	0.268	10th July, 2004
Cheong Kim Pong	15,000,000	0.268	10th July, 2004
Cheong Pin Seng	15,000,000	0.268	10th July, 2004

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance and so far as was known to the Directors, the following Shareholders (other than the Directors) were interested in 10 per cent. or more of the Company's issued share capital:

Name	Notes	Number of Shares held	
		Direct	Indirect
HFL		277,601,392	—
Hong Fok Enterprises Limited ("HFE")	(a)	—	277,601,392
HF Investment	(b)	3,852,000	277,601,392
Hong Fok Barragan	(c)	—	281,453,392
		142,656,283	—

Notes:

- (a) HFE was deemed to have the same beneficial interests as its wholly-owned subsidiary, HFL, did in the issued share capital of the Company by virtue of HFE's interest in HFL.
- (b) HF Investment was deemed to have the same beneficial interests as its wholly-owned subsidiary, HFE, did in the issued share capital of the Company by virtue of HF Investment's interest in HFE. In addition, HF Investment was directly interested in 3,852,000 Shares (approximately 0.5% of the issued share capital of the Company).
- (c) Hong Fok was deemed to have the same beneficial interests as its wholly-owned subsidiary, HF Investment, did in the issued share capital of the Company by virtue of Hong Fok's interests in HF Investment.

Save as disclosed above, it is not known to the Directors and the chief executive of the Company that there is any person who, as at the Latest Practicable Date, was directly or indirectly interested in 10 per cent. or more of the issued share capital of the Company or in any interests which was required to be recorded under Section 16(1) of the SDI Ordinance.

6. EXPERTS

Each of Ernst & Young and FPD Savills has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter(s) and/or references to its name in the form and context in which it appears.

As at the Latest Practicable Date, neither Ernst & Young nor FPD Savills was beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the Company entered into a placing agreement with Praise Time Co. Ltd., an independent third party, on 6th December, 2001 to place out 63,000,000 new Shares at the issue price of HK\$0.175 each, details of which were contained in the announcement of the Company dated 6th December, 2001;
- (b) the Acquisition Agreement; and
- (c) the Underwriting Agreement.

8. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against either the Company or any of its subsidiaries.

9. EXPENSES

The expenses for the Open Offer including financial advisory fees, underwriting commission, printing, registration, transaction, legal and accounting fees are estimated to amount to approximately HK\$4 million and are payable by the Company.

10. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to a copy of this prospectus has been registered by the Registrar of Companies in Hong Kong, together with copies of the Application Form and the written consents referred to in the paragraph headed “EXPERTS” in this appendix. A copy of this prospectus has been filed with the Registrar of Companies in Bermuda, together with copy of the Application Form.

11. MISCELLANEOUS

- (a) None of the Directors has any existing or proposed service contract with any member of the Group which does not expire or is not terminable by the Group within one year without payment of compensation (other than statutory compensation).
- (b) Save for the Underwriting Agreement, there is no agreement or arrangement entered into by any member of the Group subsisting at the date thereof in which any Director is materially interested and which is conditional upon the outcome of the Open Offer.
- (c) None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31st December, 2001, the date to which the latest published audited financial statements of the Group were made up.
- (d) The secretary of the Company is Ms. Lam Wai Han, a qualified accountant in Hong Kong and Australia.
- (e) There is no minimum subscription required to be raised pursuant to the Open Offer and disclosed in this prospectus in accordance with the requirements of Section 28 of the Companies Act as this prospectus has been accepted by an appointed stock exchange.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at Iu, Lai & Li at 20th Floor, Gloucester Tower, The Landmark, Central, Hong Kong from the date of this prospectus up to and including 29th April, 2002:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31st December, 2001;
- (c) the circular of the Company dated 25th March, 2002 in relation to, inter alia, the Acquisition, the Open Offer and the Waiver;
- (d) the letters and valuation certificate prepared by FPD Savills which are set out in Appendix I to this prospectus;
- (e) the accountants' report on Super Homes received from Ernst & Young which is set out in Appendix II to this prospectus;
- (f) the agreements mentioned under the paragraph headed "Material Contracts" in this appendix; and
- (g) the written consents referred to in the paragraph headed "Experts" in this appendix.