

1. GENERAL

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange").

The principal activities of the Company are property investment and investment holding. The principal activities of the principal subsidiaries and associates are shown in notes 15 and 16 respectively.

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

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the new and revised accounting policies. The adoption of these new and revised standards resulted in a change in the format of presentation of the cash flow statement and the disclosure of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

FOREIGN CURRENCIES

The revisions to SSAP 11 *Foreign Currency Translation* have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting years.

CASH FLOW STATEMENTS

In the current year, the Group has adopted SSAP 15 (Revised) *Cash Flow Statements*. Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as financing and operating cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

EMPLOYEE BENEFITS

In the current year, the Group has adopted SSAP 34 *Employee Benefits*, which introduces measurement rules for employee benefits, including retirement benefit plans. The adoption of SSAP 34 has not had any material impact on the financial statements.

NOTES to the Financial Statements

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

BASIS OF CONSOLIDATION

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

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

GOODWILL

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

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

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary or associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

NEGATIVE GOODWILL

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

INVESTMENTS IN ASSOCIATES

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net asset of the associates, less any identified impairment loss.

When a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

REVENUE RECOGNITION

(i) *Property development*

When properties are developed for sale, income is recognised only when the sale agreement is unconditional or when the relevant occupation permit is issued by the relevant authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as receipt in advance and is included in trade and other payables.

(ii) *Premium income*

Premiums are recognised as income over the insurance coverage period.

(iii) *Return on investments*

Dividends from investee companies are recognised as income when the Group's right to receive the relevant payment is established, whilst interest income is recognised on a time basis that takes into account the effective yield on the relevant deposits.

(iv) *Operating lease income*

Rentals receivable under operating leases are credited to the income statement on a straight-line basis over the relevant lease term.

(v) *Sales of goods*

Sales of goods are recognised when goods are delivered and title has passed.

(vi) *Management fee*

Management fee income is recognised when services are rendered.

(vii) *Sales of securities*

Sales of investments in securities are recognised when the title to the investments are transferred and the buyer takes legal possession of the investments.

NOTES to the Financial Statements

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT PROPERTIES

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than properties under development are stated at cost or valuation less depreciation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

Depreciation is provided to write off the cost or valuation of property, plant and equipment, other than properties under development, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as follows:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the lease term or 3%
Plant and machinery	10%
Furniture, fixtures, motor vehicles and computer equipment	10 – 20%

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT

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

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

PROPERTIES UNDER DEVELOPMENT

Land for properties under development is stated at cost less accumulated impairment losses. Where a piece of land is transferred from another class, it is stated at its carrying value at the time of the transfer and the value is treated as the deemed cost of the land. No further valuation of the land will be carried out subsequent to its reclassification. Development expenditure is stated at the aggregate amount of costs, including interest expenses capitalised during the development period. Provision for anticipated losses is made, where appropriate. No depreciation is provided on properties under development.

PROPERTIES HELD FOR SALE

Properties held for sale are stated at the lower of cost and the estimated market value.

INVESTMENTS IN SECURITIES

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

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

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average cost method.

TAXATION

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

NOTES to the Financial Statements

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING LEASES

Rentals receivable and payable under operating leases are credited and charged, respectively, to the income statement on a straight-line basis over the relevant lease term.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme for qualifying staff of certain companies in the Group, the assets of which are held in a separate trustee administered fund. Payments to the scheme are charged as an expense as they fall due.

Certain of the Group's employees have been enrolled in a Mandatory Provident Fund scheme. The contributions payable in respect of the current year to the fund are charged as an expense as they fall due.

FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

4. TURNOVER

Turnover represents the aggregate of the following amounts received and receivable during the year:

	2002 HK\$'000	2001 HK\$'000
Proceeds from disposal of properties	195,563	–
Gross rental income	128,302	132,201
Interest income	43,019	61,414
Sales of goods	37,359	33,882
Gross insurance premium	28,992	31,777
Proceeds from disposal of listed investments	22,141	4,118
Property management fees	15,734	16,530
Dividend income from listed investments	3,351	3,991
	474,461	283,913

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

BUSINESS SEGMENTS

The Group is currently engaged in six business activities - property investment, property development, property management, treasury investment and banking, insurance business and trading and manufacturing. These activities are the basis on which the Group reports its primary segment information.

Segment information about these business is presented below:

	Year ended 31st December, 2002							Consolidated HK\$'000
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Eliminations HK\$'000	
REVENUE								
External sales	128,302	195,563	15,734	68,511	28,992	37,359	-	474,461
Inter-segment sales	880	-	4,635	170,305	961	-	(176,781)	-
Total revenue	129,182	195,563	20,369	238,816	29,953	37,359	(176,781)	474,461
Inter-segment sales are charged at prevailing market rates.								
RESULT								
Segment result	93,395	(55,898)	4,910	(7,247)	6,084	253	-	41,497
Finance costs								(68,451)
Share of results of associates	94	-	-	165,950	-	-	-	166,044
Profit before tax								139,090
Taxation								(43,580)
Profit after tax								95,510

NOTES to the Financial Statements

For the year ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

BALANCE SHEET

	As at 31st December, 2002							Consolidated HK\$'000
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000		
ASSETS								
Segment assets	2,899,668	2,150,255	1,627	1,148,190	11,917	49,444		6,261,101
Investments in associates	2,924	-	-	2,639,526	-	-		2,642,450
Unallocated corporate assets								71,282
Consolidated total assets								8,974,833
LIABILITIES								
Segment liabilities	49,453	726,976	3,307	71	17,669	18,818		816,294
Unallocated corporate liabilities								2,461,736
Provision for taxation								6,052
Consolidated total liabilities								3,284,082

OTHER INFORMATION

	Year ended 31st December, 2002							
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	131,378	131,360	-	-	49	255	427	263,469
Depreciation and amortisation	1,254	119	-	-	122	1,087	1,285	3,867
Unrealised holding loss on other investments	-	-	-	9,805	-	-	-	9,805

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

	Year ended 31st December, 2001							Consolidated HK\$'000
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Eliminations HK\$'000	
REVENUE								
External sales	132,201	–	16,530	69,523	31,777	33,882	–	283,913
Inter-segment sales	929	–	4,486	192,048	784	–	(198,247)	–
Total revenue	133,130	–	21,016	261,571	32,561	33,882	(198,247)	283,913
Inter-segment sales are charged at prevailing market rates.								
RESULT								
Segment result	107,844	(66,667)	6,230	38,291	7,166	(798)	–	92,066
Finance costs								(67,464)
Share of results of associates	–	–	–	173,381	–	–	–	173,381
Profit before tax								197,983
Taxation								(40,828)
Profit after tax								157,155

NOTES to the Financial Statements

For the year ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

BALANCE SHEET

	As at 31st December, 2001						
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	2,648,091	2,795,962	1,238	1,277,305	9,990	51,536	6,784,122
Investments in associates	-	-	-	2,605,159	-	-	2,605,159
Unallocated corporate assets							29,274
Consolidated total assets							9,418,555
LIABILITIES							
Segment liabilities	51,668	583,616	2,614	61	15,398	5,726	659,083
Unallocated corporate liabilities							2,663,231
Provision for taxation							1,382
Consolidated total liabilities							3,323,696

OTHER INFORMATION

	Year ended 31st December, 2001							
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	4,731	349,077	-	-	293	200	1,987	356,288
Depreciation and amortisation	924	240	-	-	253	2,095	1,605	5,117
Provision for impairment loss	-	66,667	-	-	-	-	-	66,667
Unrealised holding loss on other investments	-	-	-	15,404	-	-	-	15,404

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

GEOGRAPHICAL SEGMENTS

The Group's operations are located in Hong Kong and other parts of the People's Republic of China (the "PRC"). Certain of the Group's property development and trading and manufacturing business are located in the PRC. Others are located in Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to profit before tax	
	Year ended 31.12.2002 HK\$'000	Year ended 31.12.2001 HK\$'000	Year ended 31.12.2002 HK\$'000	Year ended 31.12.2001 HK\$'000
Hong Kong	449,974	265,590	(25,318)	94,287
PRC	24,487	18,323	(1,636)	(69,685)
	474,461	283,913	(26,954)	24,602
Share of results of associates			166,044	173,381
Profit before tax			139,090	197,983

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and property under development, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and property under development	
	As at 31.12.2002 HK\$'000	As at 31.12.2001 HK\$'000	As at 31.12.2002 HK\$'000	As at 31.12.2001 HK\$'000
Hong Kong	6,793,842	7,400,516	131,854	114,296
PRC	2,179,072	2,017,242	131,615	241,992
Others	1,919	797	–	–
	8,974,833	9,418,555	263,469	356,288

NOTES to the Financial Statements

For the year ended 31st December, 2002

6. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments (Note 8)	13,052	14,271
Other staff costs	31,771	35,307
Staff retirement scheme contributions, net of nil (2001: Nil) forfeited contributions	1,716	2,620
Total staff costs	46,539	52,198
Auditors' remuneration	1,068	998
Depreciation	3,867	5,117
Loss on disposal of investments properties	10,140	–
Operating lease rentals in respect of land and buildings	3,143	3,379
Impairment loss recognised in respect of properties under development	–	66,667
and after crediting:		
Net rental income from properties	117,253	130,400
Realised gain on disposal of other investments	4,762	1,640
Surplus on revaluation of land and buildings	84	82
Gain on disposal of property, plant and equipment	–	71

7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank loans and overdrafts	135,998	200,220
Other borrowings	2,242	20,942
	138,240	221,162
Less: Amount capitalised as cost of properties under development at a capitalisation rate of 2.26% (2001: 5.25%) per annum	(69,789)	(153,698)
	68,451	67,464

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Directors' fees	760	800
Other emoluments:		
Salary and other benefits	11,717	12,568
Retirement scheme contributions	575	903
	13,052	14,271

The amounts disclosed above include emoluments of HK\$400,000 (2001: HK\$400,000) payable to independent non-executive directors.

Notes:

- (a) Emoluments of Directors were within the following bands:

Range	No. of directors	
	2002	2001
Nil to HK\$1,000,000	10	10
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$4,000,000	1	–
HK\$4,000,001 to HK\$6,500,000	–	1

- (b) The five highest paid employees are all executive directors of the Company. Their emoluments have been disclosed and included in the above.
- (c) During the year, no emoluments were paid by the Group to the five highest paid directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

NOTES to the Financial Statements

For the year ended 31st December, 2002

9. TAXATION

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax:		
The Company and its subsidiaries		
Current year	15,047	16,547
Underprovision in prior years	236	370
	15,283	16,917
Associates	27,288	21,880
	42,571	38,797
Overseas tax:		
The Company and its subsidiaries	–	2,031
Associates	1,009	–
	1,009	2,031
	43,580	40,828

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Details of the potential deferred tax not provided for in the year are set out in note 26.

10. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim dividend paid at HK\$0.10 (2001: HK\$0.10) per share	37,894	37,903
Proposed final dividend at HK\$0.06 (2001: HK\$0.10) per share	22,715	37,894
	60,609	75,797

The final cash dividend of HK\$0.06 (2001: HK\$0.10) per share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming general meeting.

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$80,362,000 (2001: HK\$188,106,000) and on the weighted average number of 378,860,591 (2001: 379,001,923) shares in issue during the year.

12. INVESTMENT PROPERTIES

	THE GROUP HK\$'000	THE COMPANY HK\$'000
VALUATION		
At 1st January, 2002	2,623,849	680,000
Transfer from properties under development	334,575	–
Deficit on revaluation	(84,575)	–
At 31st December, 2002	2,873,849	680,000

The investment properties were revalued as at 31st December, 2002 on an open market value basis by Vigers Hong Kong Ltd., an independent firm of professional valuers. The resulting deficit of the Group of approximately HK\$84,575,000 (2001: HK\$20,000,000) arising on revaluation have been charged to the investment property revaluation reserve.

There is no surplus nor deficit of the Company for the year ended 31st December, 2002 arising on revaluation. The deficit of the Company of approximately HK\$20,000,000 for the year ended 31st December, 2001 arising on revaluation was charged to the investment property revaluation reserve.

All investment properties are held for rental income or intended to be held for rental income under operating leases.

A summary of the carrying values of investment properties, which are all situated in Hong Kong, is as follow:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Held under:				
Long leases	2,606,849	2,606,849	680,000	680,000
Medium-term leases	267,000	17,000	–	–
	2,873,849	2,623,849	680,000	680,000

NOTES to the Financial Statements

For the year ended 31st December, 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, motor vehicles and computer equipment HK\$'000	Total HK\$'000
THE GROUP				
COST/VALUATION				
At 1st January, 2002	3,874	27,072	29,254	60,200
Additions	–	255	2,177	2,432
Disposals	–	–	(36)	(36)
At 31st December, 2002	3,874	27,327	31,395	62,596
COMPRISING:				
At cost	–	27,327	31,395	58,722
At valuation	3,874	–	–	3,874
	3,874	27,327	31,395	62,596
ACCUMULATED DEPRECIATION				
At 1st January, 2002	–	8,752	21,233	29,985
Charge for the year	91	1,088	2,688	3,867
Eliminations on disposals	–	–	(36)	(36)
Surplus on revaluation	(91)	–	–	(91)
At 31st December, 2002	–	9,840	23,885	33,725
NET BOOK VALUES				
At 31st December, 2002	3,874	17,487	7,510	28,871
At 31st December, 2001	3,874	18,320	8,021	30,215

A summary of the net book values of land and buildings held by the Group, which are all situated in the PRC, is as follows:

	2002 & 2001 HK\$'000
Held under:	
Long leases	364
Medium-term leases	3,510
	3,874

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and building held in PRC under long lease HK\$'000	Furniture, fixtures, motor vehicles and computer equipment HK\$'000	Total HK\$'000
THE COMPANY			
COST/VALUATION			
At 1st January, 2002	364	14,190	14,554
Additions	–	427	427
At 31st December, 2002	364	14,617	14,981
COMPRISING:			
At cost	–	14,617	14,617
At valuation	364	–	364
	364	14,617	14,981
ACCUMULATED DEPRECIATION			
At 1st January, 2002	–	11,074	11,074
Charge for the year	7	1,277	1,284
Surplus on revaluation	(7)	–	(7)
At 31st December, 2002	–	12,351	12,351
NET BOOK VALUES			
At 31st December, 2002	364	2,266	2,630
At 31st December, 2001	364	3,116	3,480

The land and buildings were revalued as at 31st December, 2002 on an open market value basis by Vigers Hong Kong Ltd., an independent firm of professional valuers. The resulting surplus arising on revaluation of the Group amounting to HK\$91,000 has been dealt with as follows:

- (i) a surplus of HK\$7,000 has been credited to the other property revaluation reserve; and
- (ii) a surplus of HK\$84,000 has been credited to the income statement.

The resulting surplus arising on revaluation of the Company amounting to HK\$7,000 has been credited to other property revaluation reserve.

The amount of land and buildings of the Group and of the Company that would have been included in the financial statements at the balance sheet date had the assets been carried at cost less accumulated depreciation is approximately HK\$4,661,000 and HK\$185,000 (2001: HK\$4,775,000 and HK\$189,000), respectively.

NOTES to the Financial Statements

For the year ended 31st December, 2002

14. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Land situated in Hong Kong and held under medium-term lease, at cost less impairment loss	–	520,070
Land situated in the PRC and held under medium-term lease, at cost less impairment loss	587,070	587,070
	587,070	1,107,140
Development expenditure to date	1,418,688	1,594,004
	2,005,758	2,701,144

Included in properties under development is net interest capitalised of approximately HK\$476,547,000 (2001: HK\$636,321,000).

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares/capital contribution, at cost	286,409	286,433
Less: Impairment loss recognised	(34,372)	(34,372)
	252,037	252,061
Amounts due from subsidiaries, less allowance for doubtful debt (note)	2,658,233	3,327,609
	2,910,270	3,579,670

Note: Included in the balance is an amount of HK\$570,668,000 (2001: HK\$734,498,000) due from a subsidiary, the repayment of which had been subordinated to a bank.

In the opinion of the Company's directors, the amounts due from subsidiaries will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's principal subsidiaries as at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued ordinary share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
Liu Chong Hing Estate Company, Limited	Hong Kong	HK\$10,000,000	100	–	Investment holding
Liu Chong Hing Godown Company, Limited	Hong Kong	HK\$72,000,000	100	–	Property investment
Liu Chong Hing Insurance Company Limited	Hong Kong	HK\$50,000,000	100	–	Insurance business
Liu Chong Hing Property Management and Agency Limited	Hong Kong	HK\$1,000,000	100	–	Property management and agency
Abaleen Enterprises Limited	Hong Kong	HK\$100,000	100	–	Property investment
Alain Limited	Hong Kong	HK\$9,500	52.6	21.4	Investment holding
Bonsun Enterprises Limited	Hong Kong	HK\$2,000,000	100	–	Property investment
Chong Yip Finance Limited	Hong Kong	HK\$1,000,000	100	–	Money lending
Devon Realty Limited	Hong Kong	HK\$200	100	–	Property investment
Donington Company Limited	Hong Kong	HK\$200	100	–	Property investment
Gem Gain Enterprises Limited	Hong Kong	HK\$30	100	–	Investment holding
Great Earnest Limited	Hong Kong	HK\$200	100	–	Property investment
Great Fun Company Limited	Hong Kong	HK\$200	100	–	Investment holding
Heng Kin Investment Limited	Hong Kong	HK\$2	100	–	Property investment
Jacot Limited	Hong Kong	HK\$2	100	–	Investment holding
Joyful Nice International Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
Ko Yew Company Limited	Hong Kong	HK\$200	100	–	Property investment
Luxpolar Limited	Hong Kong	HK\$2	–	100	Property investment
Marble Kingdom Limited	Hong Kong	HK\$2	100	–	Investment holding
Oriental Victory Investment Limited	Hong Kong	HK\$2	100	–	Property investment
Queen Profit International Investment Limited	Hong Kong	HK\$61,540	83.75	–	Investment holding

NOTES to the Financial Statements

For the year ended 31st December, 2002

15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operations	Issued ordinary share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
Sino Pink Development Limited	Hong Kong	HK\$2	100	–	Property development
Speed World Investment Limited	Hong Kong	HK\$100	–	60	Investment holding
Top Team Limited	Hong Kong	HK\$200	100	–	Investment holding
Wealth Good Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
Yue Tung Ching Kee Company Limited	Hong Kong	HK\$2,000,000	100	–	Property investment
Guangzhou Chong Hing Property Development Company Limited (“Guangzhou Chong Hing”)	PRC	RMB170,000,000	–	60	Property development
Maanshan Gaoke Magnetic Material Company Limited (“Maanshan Gaoke”)	PRC	RMB41,000,000	–	51.5	Manufacturing of magnetic materials
Shanghai Huang Pu Liu Chong Hing Property Development Company Limited (“Shanghai Huang Pu”)	PRC	US\$27,000,000	–	70.3	Property development
China Link Technologies Limited	British Virgin Islands/ Hong Kong	US\$100	100	–	Investment holding
Determined Resources Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	–	Share investment
Linktime Int’l Development Limited	British Virgin Islands/ PRC	US\$10	–	60	Consultancy services
Terryglass Limited	British Virgin Islands/ Thailand	US\$1,000	100	–	Investment holding

15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Guangzhou Chong Hing is a sino-foreign cooperative enterprise while Maanshan Gaoke and Shanghai Huang Pu are sino-foreign equity joint ventures.

None of the subsidiaries had any debt security subsisting at 31st December, 2002 or at any time during the year.

The Company's directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the above list contains only the particulars of subsidiaries which principally affect the results or net assets of the Group.

16. INVESTMENTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	–	–	3	3
Share of net assets of associates which are				
– listed in Hong Kong	2,639,526	2,602,476	–	–
– unlisted	2,924	2,166	–	–
	2,642,450	2,604,642	3	3
Amounts due from associates	–	517	–	–
	2,642,450	2,605,159	3	3
Market value of listed shares at 31st December	1,373,635	1,412,882	–	–

In the opinion of the Company's directors, the amounts due from associates will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

NOTES to the Financial Statements

For the year ended 31st December, 2002

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the Group's principal associates at 31st December, 2002 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Liu Chong Hing Bank Limited (listed in Hong Kong) ("LCH Bank")	Incorporated	Hong Kong	Ordinary	-	45.1	Banking business
Falconmate Limited	Incorporated	Hong Kong	Ordinary	50.0	-	Property investment
Pelham Hill Limited	Incorporated	Hong Kong	Ordinary	25.0	-	Investment holding

The Company's directors are of the opinion that a complete list of the particulars of all associates will be of excessive length and therefore the above list discloses only the particulars of those associates which principally affect the results or net assets of the Group.

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following details have been extracted from the audited financial statements of the Group's principal associate, LCH Bank, and its subsidiaries (hereinafter collectively referred to as the "LCH Bank Group").

Consolidated results of LCH Bank Group for the year ended 31st December, 2002 are as follows:

	2002 HK\$'000	2001 HK\$'000
Interest income	1,248,660	1,979,195
Interest expenses	(499,289)	(1,182,514)
Net interest income	749,371	796,681
Other operating income	200,846	156,494
Operating income	950,217	953,175
Operating expenses	(439,261)	(423,682)
Operating profit before provisions and disposal of long-term assets	510,956	529,493
Charge for bad and doubtful debts	(129,027)	(136,437)
Net losses from disposal of property and equipment	(231)	(843)
Gains less losses from disposal of other securities	–	15,926
Gains less losses from disposal of held-to-maturity securities	–	5,088
Profit from operations	381,698	413,227
Share of results of jointly controlled entities	(9,510)	(18,882)
Profit from ordinary activities before taxation	372,188	394,345
Taxation	(62,694)	(48,458)
Net profit for the year	309,494	345,887

LCH Bank Group has selected the alternative treatment for securities other than held-to-maturity securities upon adoption of SSAP 24 "Accounting for investments in securities" issued by the Hong Kong Society of Accountants, under which the valuation movements of non-trading securities are dealt with in equity while those of trading securities are dealt with in the income statement.

NOTES to the Financial Statements

For the year ended 31st December, 2002

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Consolidated financial position of LCH Bank Group as at 31st December, 2002:

	2002 HK\$'000	2001 HK\$'000
Assets		
Cash and short-term funds	12,388,484	14,269,839
Placements with banks and other financial institutions maturing between one and twelve months	2,223,465	3,201,738
Trading securities	185,994	172,335
Advances and other accounts	19,589,201	18,931,110
Held-to-maturity securities	1,557,144	494,874
Certificates of deposit held	1,337,768	476,194
Other securities	256,312	288,152
Interest in an associate	362,777	360,139
Interest in jointly controlled entities	69,033	75,668
Investment properties	47,868	47,868
Property and equipment	1,170,950	1,145,313
Total assets	39,188,996	39,463,230
Liabilities		
Deposits and balances of banks and other financial institutions	420,845	544,206
Current, fixed, savings and other deposits of customers	32,492,252	32,685,720
Other accounts and provisions	390,182	436,519
Taxation	7,694	803
Total liabilities	33,310,973	33,667,248
Net tangible assets	5,878,023	5,795,982

17. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
THE GROUP						
Equity securities:						
Listed in Hong Kong	–	–	48,705	67,362	48,705	67,362
Listed overseas	–	–	1,919	797	1,919	797
Unlisted	88,909	88,390	190,631	185,324	279,540	273,714
	88,909	88,390	241,255	253,483	330,164	341,873
Market value of listed securities:						
Listed in Hong Kong	–	–	48,705	67,362	48,705	67,362
Listed overseas	–	–	1,919	797	1,919	797
	–	–	50,624	68,159	50,624	68,159
Carrying amount analysed for reporting purposes as:						
Current	–	–	1,746	20,785	1,746	20,785
Non-current	88,909	88,390	239,509	232,698	328,418	321,088
	88,909	88,390	241,255	253,483	330,164	341,873
THE COMPANY						
Equity securities:						
Listed in Hong Kong	–	–	1,746	20,785	1,746	20,785
Listed overseas	–	–	391	162	391	162
Unlisted	1,725	1,725	25,790	26,484	27,515	28,209
	1,725	1,725	27,927	47,431	29,652	49,156
Market value of listed securities:						
Listed in Hong Kong	–	–	1,746	20,785	1,746	20,785
Listed overseas	–	–	391	162	391	162
	–	–	2,137	20,947	2,137	20,947
Carrying amount analysed for reporting purposes as:						
Current	–	–	1,746	20,785	1,746	20,785
Non-current	1,725	1,725	26,181	26,646	27,906	28,371
	1,725	1,725	27,927	47,431	29,652	49,156

NOTES to the Financial Statements

For the year ended 31st December, 2002

18. ADVANCES TO INVESTEE COMPANIES

The advances are unsecured, bear interests at market interest rates and have no fixed repayment terms. In the opinion of the Company's directors, the investee companies will not repay the advance in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets. In 2001, included in the advances was an amount of approximately HK\$623,809,000 which was subordinated to the repayment of bank loans of one of the investee companies. The subordination was released during the year.

19. LOAN RECEIVABLE

	2002 HK\$'000	2001 HK\$'000
Loan receivable	29,467	–
Less: Amount due within one year included in trade and other receivable	(8,624)	–
	20,843	–

The Group offers loans to third parties and buyers of properties sold by the Group and the repayment of the loans is specified in the respective loan agreements.

20. INVENTORIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Raw materials	1,405	2,065	–	–
Work in progress	1,179	1,479	–	–
Finished goods	6,384	8,651	691	1,283
	8,968	12,195	691	1,283

The cost of inventories recognised as an expense during the year amounted to approximately HK\$34,639,000 (2001: HK\$30,336,000).

21. TRADE AND OTHER RECEIVABLES

The Group operates a controlled credit policy and allows an average credit period of 30 – 90 days to its trade customers who satisfy the credit evaluation. The aging analysis of trade receivables of HK\$55,206,000 (2001: HK\$64,480,000) which are included in trade and other receivables are as follows:

	2002 HK\$'000	2001 HK\$'000
Current	42,255	53,927
Over 30 days	6,101	4,366
Over 90 days	6,850	6,187
	55,206	64,480

NOTES to the Financial Statements

For the year ended 31st December, 2002

22. BORROWINGS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans				
Secured	462,384	402,215	320,000	320,000
Unsecured	1,865,000	1,985,000	1,865,000	1,985,000
Secured loan from LCH Bank Group	250,000	358,000	250,000	358,000
Secured bank overdrafts granted by LCH Bank Group	867	1,759	867	1,547
Total bank borrowings	2,578,251	2,746,974	2,435,867	2,664,547
Amount due to an associate (note)	428,669	411,605	2,149	2,009
Amounts due to minority shareholders (note)	11,112	14,317	–	–
	3,018,032	3,172,896	2,438,016	2,666,556
The maturity of borrowings is as follows:				
Bank borrowings				
On demand or within one year	1,144,617	853,974	1,144,617	771,547
More than one year but not exceeding two years	1,114,884	1,298,000	1,172,500	1,298,000
More than two years but not exceeding five years	318,750	595,000	118,750	595,000
Total bank borrowings	2,578,251	2,746,974	2,435,867	2,664,547
Less: Amount due within one year shown under current liabilities	(1,144,617)	(853,974)	(1,144,617)	(771,547)
	1,433,634	1,893,000	1,291,250	1,893,000
Amount due to associates (note)	428,669	411,605	2,149	2,009
Amounts due to minority shareholders (note)	11,112	14,317	–	–
Amounts due after one year	1,873,415	2,318,922	1,293,399	1,895,009

Note: These borrowings are unsecured, bear interests at market interest rates and have no fixed repayment terms. In the opinion of the Company's directors, the respective creditors will not demand repayment in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities.

23. TRADE AND OTHER PAYABLES

At balance sheet date, included in trade and other payables are trade payable of HK\$44,139,000 (2001: HK\$25,711,000) and the aging analysis are as follows:

	2002 HK\$'000	2001 HK\$'000
Current	33,460	15,457
Over 30 days	8,367	7,697
Over 90 days	2,312	2,557
	44,139	25,711

24. SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Ordinary shares of HK\$1 each		
Authorised:		
At 1st January and 31st December	600,000	600,000
Issued and fully paid:		
At 1st January	378,943	379,025
Shares repurchased and cancelled	(360)	(82)
At 31st December	378,583	378,943

During the year, the Company repurchased a total 360,000 shares (2001: 82,000 shares) of HK\$1 each in the Company through the Hong Kong Stock Exchange. All such shares have been cancelled and the total consideration was charged to accumulated profits as follows:

Trading month/year	Number of shares repurchased	Price per share HK\$	Aggregate consideration paid HK\$'000
October 2002	360,000	3.60	1,301

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

NOTES to the Financial Statements

For the year ended 31st December, 2002

25. RESERVES

	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Dividend reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY							
At 1st January, 2001	3	316,387	170	2,510	79,595	981,383	1,380,048
Profit for the year	-	-	-	-	-	158,007	158,007
Dividend declared	-	-	-	-	75,797	(75,797)	-
Dividend paid	-	-	-	-	(117,498)	-	(117,498)
(Deficit) surplus on revaluation	-	(20,000)	7	-	-	-	(19,993)
Cancellation on repurchase of own shares	-	-	-	82	-	(327)	(245)
At 31st December, 2001	3	296,387	177	2,592	37,894	1,063,266	1,400,319
Reclassification	(3)	-	-	3	-	-	-
Loss for the year	-	-	-	-	-	(372,046)	(372,046)
Dividend declared	-	-	-	-	60,609	(60,609)	-
Dividend paid	-	-	-	-	(75,788)	-	(75,788)
(Deficit) surplus on revaluation	-	-	7	-	-	-	7
Cancellation on repurchase of own shares	-	-	-	360	-	(1,301)	(941)
At 31st December, 2002	-	296,387	184	2,955	22,715	629,310	951,551

The Company's reserves available for distribution to shareholders at 31st December, 2002 amounted to HK\$652,025,000 (2001: HK\$1,101,160,000), being its accumulated profits and dividend reserve at that date.

26. UNRECOGNISED DEFERRED TAXATION

The components of unrecognised deferred tax assets (liabilities) at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:				
Tax losses	47,431	50,257	9,257	34,582
Excess of tax allowances over depreciation	(613)	(288)	(619)	(369)
	46,818	49,969	8,638	34,213

The components of unprovided deferred tax credit (charge) for the year are as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:				
Tax losses	(325)	8,089	(25,325)	4,229
Excess of tax allowances over depreciation	(2,805)	29	(250)	(42)
	(3,130)	8,118	(25,575)	4,187

The net deferred tax assets have not been recognised in the financial statements as it is not certain that the tax benefits will be realised in the foreseeable future.

Deferred taxation has not been provided on the revaluation surplus arising on the Group's properties and the non-trading investments of its associates because profits arising on future disposal of these assets would not be subject to taxation. Accordingly, the surplus arising on revaluation does not constitute a timing difference for tax purpose.

NOTES to the Financial Statements

For the year ended 31st December, 2002

27. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 25th April, 2002, which replace the previous share option scheme, for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24th April, 2012. Under the Scheme, the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside eligible third parties at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the 5th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's share on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant, or the closing price of the shares on the date of grant.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

28. PLEDGE OF ASSETS

THE GROUP

At the balance sheet date, certain investment properties of the Group with an aggregate carrying amount of HK\$1,337,000,000 (2001: properties under development and investment properties of HK\$1,904,000,000) were pledged to banks to secure general banking facilities made available to the Group. In addition, the Group had also executed a share mortgage of its investment in an investee company with a carrying amount of HK\$138,102,000 (2001: HK\$132,102,000) in favour of banks against facilities granted to that investee company.

THE COMPANY

At the balance sheet date, the investment properties of the Company with an aggregate carrying amount of HK\$680,000,000 (2001: HK\$680,000,000) were pledged to banks to secure general banking facilities made available to the Company. In addition, the Company also pledged the shares of a subsidiary in favour of a bank against facilities granted to that subsidiary.

29. CONTINGENT LIABILITIES

At 31st December, 2001, the Group and the Company had given a corporate guarantee to a bank for banking facilities amounting to HK\$70,000,000 granted to an investee company. The guarantee was released during the year.

In addition, at the balance sheet date the Company had given corporate guarantees to bank for banking facilities amounting to HK\$300,000,000 (2001: HK\$150,000,000) granted to a subsidiary.

In addition, during the year and subsequent to the balance sheet date, the following litigations have taken place:

- i. In October 2002, the Group had issued a writ (“Writ”) dated 15th October, 2002, to claim against a minority shareholder of a subsidiary (the “Minority Shareholder”) for, inter alia, a right to terminate a shareholders’ agreement (the “Agreement”) dated 16th February, 1995, specific performance in accordance to the clause of the Agreement and consequential costs (the “Claim”).

The Claim is still in process and the directors are of the opinion that the outcome of the Claim will not have material adverse effect to the Group.

- ii. Subsequent to the balance sheet date, the Minority Shareholder petitioned to the High Court for winding up of two 60%-owned subsidiaries of the Company (the “Subsidiaries”). The directors consider that it is not possible to determine the possible outcome with reasonable certainty at this time. The Group, after obtaining legal advice, is strongly contesting the above winding-up petitions and, accordingly, no provision for any potential liabilities in connection with this matter has been made in the financial statements.

30. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Capital expenditure in respect of property development expenditure contracted for but not provided in the financial statements	54,900	180,079	–	–
Capital expenditure in respect of the contributions to the capital of an investee company contracted for but not provided in the financial statements	77,000	83,087	77,000	83,087
Capital expenditure in respect of the renovation works of investment properties contracted for but not provided in the financial statements	–	191	–	–
	131,900	263,357	77,000	83,087

NOTES to the Financial Statements

For the year ended 31st December, 2002

31. OPERATING LEASE COMMITMENTS

THE GROUP AS LESSEE

At the balance sheet date, the Group and the Company has commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	1,950	1,359	852	794
In the second to fifth year inclusive	1,179	–	630	–
	3,129	1,359	1,482	794

Operating lease payments represent rentals for certain of its office properties. Leases are negotiated for an average of two years and rentals are fixed throughout the leases period.

THE GROUP AS LESSOR

Property rental income earned during the year for the Group amounted to approximately HK\$128 million (2001: HK\$132 million). Most of the properties held have committed tenants for the next one to five years except that one of the leases was signed for a term of sixty years, the monthly rent of which is to be reviewed every five years. The future minimum lease payments for the remaining period of the lease term from this tenant is calculated based on the existing monthly rental payment.

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

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	73,711	95,275	12,469	15,695
In the second to fifth year inclusive	50,784	51,339	8,786	13,542
After five years	61,490	61,618	–	–
	185,985	208,232	21,255	29,237

32. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme (the "ORSO Scheme") for the qualifying employees of certain companies in the Group and in December 2000, enrolled all other eligible employees into a Mandatory Provident Fund ("MPF") Scheme. The ORSO Scheme is registered under the Occupation Retirement Schemes Ordinance. The assets of both schemes are held separately from those of the Group in funds under the control of trustees.

The contributions payable to the fund by the Group are charged to income statement at rates specified in the rules of the ORSO Scheme. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. At the balance sheet date, there was no forfeited contributions (2001: Nil) arising upon employees leaving the ORSO Scheme which are available to reduce the contributions payable in the future years.

The retirement benefit cost for the MPF charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

33. RELATED PARTY DISCLOSURES

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

	2002 HK\$'000	2001 HK\$'000
Income receivable from an associate		
Rental income	7,759	6,631
Management and other service fee income	3,415	3,119
Interest income	1,298	1,707
Insurance income	3,470	2,806
	15,942	14,263
Expenses payable to an associate		
Interest expenses	8,270	16,931
Rental expenses	1,870	2,100
	10,140	19,031

The prices of the above transactions were determined by the directors with reference to market prices or prices for similar transactions with unrelated third parties.

In addition, at 31st December, 2002, the Group and the Company had outstanding balances with related parties, details of which are set out in the balance sheets, notes 15, 16, 18 and 22 respectively.

Furthermore, at 31st December, 2002, certain investment properties of the Group with an aggregate net book value of HK\$407 million (2001: HK\$407 million) have been pledged to the LCH Bank Group to secure banking facilities granted to the Group.