

Corporate Information

EXECUTIVE DIRECTORS

Mr. Chiu Tao, *Chairman*

Mr. Tsui Ching Hung

Mr. Chung Nai Ting

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tong Wui Tung

Mr. Chan Sze Hung

COMPANY SECRETARY

Mr. Au Yeung Shiu Kau, Peter

AUDITORS

KPMG

SHARE REGISTRARS

Tengis Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

REGISTERED OFFICE

Room 4504-5, 45/F.

China Resources Building

26 Harbour Road

Hong Kong

Chairman's Statement

During the year ended 31 December 2002, the Company and its subsidiaries (the "Group") recorded a loss attributable to shareholders of HK\$5.4 million (2001: profit of HK\$32.6 million). Loss per share was HK\$0.18 (2001: earnings of HK\$1.11). Further details of the Group's past performance are explained under the "Management Discussion and Analysis" section.

The general decline in economic conditions and the investment market has affected the Group's investment portfolio returns. The Group is pleased to re-established its property portfolio and secure stable returns from its investment properties. However, the outlook of the economic environment is uncertain and we may see further deterioration in the investment market. After due and careful consideration, the Board of Directors has resolved not to recommend any final dividend for the year ended 31 December 2002.

I would like to take this opportunity to express my appreciation to all members of the Board for their contribution during the past year.

Chiu Tao

Chairman

Hong Kong, 26 March 2003

Management Discussion and Analysis

Turnover of the Group for the year 2002 decreased by HK\$2.2 million to HK\$21.8 million. On 6 August 2002, the Group entered into a sales and purchase agreement with Grand Success Worldwide Limited, an unrelated third party, to acquire all the shares in Grand Noble Group Limited which holds an investment property (the “Property”) in the People’s Republic of China. The acquisition was completed on 6 August 2002 for total consideration of HK\$290.0 million. Details of which have been disclosed in the Company’s past announcements. As a result, funds available for earning interest income was reduced, and coupled with the general decline in interest rates, interest income for the year 2002 decreased accordingly. The Property, however, has generated rental income of HK\$9.8 million and contributed significantly to the Group’s turnover. The acquisition of the Property has also re-established the Group’s property interests. Overall, turnover for the Group decreased by approximately 9%. For the securities investments, the Group has made impairment losses of HK\$21.1 million. The general decline in the economic conditions and investment market has caused a corresponding decline in the fair values of the Group’s securities investments. Any changes in the fair values are firstly recognized in the investment revaluation reserve (the “IRR”) in accordance with the Group’s accounting policy. In view of the deficit in the IRR, the Group has reviewed each individual securities investment for possible impairment and has determined to transfer HK\$21.1 million from the IRR to the consolidated profit and loss account. There was no disposal of securities investments during the year 2002, as compared to a gain on disposal of HK\$10.3 million in the year 2001. Overall, the loss attributable to shareholders in the year 2002 amounted to HK\$5.4 million as opposed to a profit of HK\$32.6 million in the year 2001.

As at 31 December 2002, the Group had cash and bank balances of HK\$14.5 million with no borrowings, and long-term investments of HK\$282.0 million at market value. During the year of 2002, the Group’s net assets decreased from HK\$668.0 million to HK\$638.3 million, which was attributable to the net effect of the net loss for the year of HK\$5.4 million, together with a HK\$30.0 million surplus on revaluation of investment property and a HK\$54.3 million decline in the balance of the investment revaluation reserve. As at 31 December 2002, the Group employed three staff. Staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The Group does not have any share option scheme.

On 23 April 2002, the Group entered into a conditional sales and purchase agreement with Continental Mariner Investment Company Limited, an unrelated third party, under the terms of which the Group would acquire approximately 29.5% of the entire issued share capital of Poly Investments Holdings Limited, a company listed in Hong Kong, for a total cash consideration of HK\$255.0 million, representing HK\$0.712 per share. As the conditions precedent in the sales and purchase agreement were not fulfilled by the specified deadline, the agreement lapsed subsequently during the year of 2002. Details of this aborted transaction have been disclosed in the Company’s past announcements.

Report of the Directors

The Directors submit herewith their annual report and the audited consolidated financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND TRADING OPERATIONS

The principal activity of the Company is investment holding and those of its subsidiaries are set out in note 17 to the financial statements on pages 37 to 39.

An analysis of the results of each of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 2 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2002 are set out in note 17 to the financial statements on pages 37 to 39.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002:

- (i) the Group has no major suppliers, as defined under the Listing Rules of The Stock Exchange of Hong Kong Limited;
- (ii) the aggregate amount of turnover attributable to the Group's largest customer and its five largest customers both represented 45 per cent of the Group's total turnover; and
- (iii) the Directors did not have any interest in the major customers of the Group.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2002 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 12 to 40.

Movements in reserves during the year are set out in note 16 to the financial statements on pages 36 to 37.

TRANSFER TO RESERVES

The loss attributable to shareholders for the year of HK\$5.4 million (2001: profit of HK\$32.6 million) has been transferred to reserves.

Report of the Directors (Continued)

INVESTMENT PROPERTY

During the year, the Group acquired an investment property for HK\$290.0 million. Details of the investment property are set out in note 10 to the financial statements.

DIVIDENDS

The Directors do not recommend the payment of any dividends to be paid in respect of the year ended 31 December 2002.

DIRECTORS

The Directors during the year were:

Mr Chiu Tao - Chairman

Mr Tsui Ching Hung

Mr Chung Nai Ting

Mr Tong Wui Tung

Mr Chan Sze Hung

In accordance with Article 103(A) of the Company's Articles of Association, Mr Chung Nai Ting retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and Senior Management are set out below:

Executive Directors

Mr Chiu Tao, aged 47, was appointed as the Chairman of the Company in November 2000. He has over 20 years' experience in the metals business in China and Hong Kong.

Mr Tsui Ching Hung, aged 49, was appointed as a director of the Company in November 2000. He holds a Master of Science degree in Polymer Science and a Master of Business Administration degree obtained from the University of Aston and the University of Warwick in the United Kingdom respectively. He has over 10 years' experience in senior management positions of several multinational corporations in Hong Kong.

Report of the Directors (Continued)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Executive Directors (Continued)

Mr Chung Nai Ting, aged 47, was appointed as a director of the Company in November 2000. He has over 20 years' experience in trading business.

The above Executive Directors are also directors of E-Tech Pacific Limited and Wonson International Holdings Limited, which are both deemed under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") to have an interest in the share capital of the Company disclosable to the Company under the provisions of Part II of the SDI Ordinance.

Independent Non-executive Directors

Mr Tong Wui Tung, aged 52, was appointed as an independent non-executive director of the Company in November 2000. Mr. Tong is a partner of Messrs Cheung, Tong & Rosa and has been practising as a solicitor in Hong Kong for over 20 years.

Mr Chan Sze Hung, aged 50, was appointed as an independent non-executive director of the Company in November 2000. Mr. Chan is a solicitor practising in Hong Kong. He has over 20 years of experience in the legal profession and is a consultant of Messrs Chan, Lau & Wai, a firm of solicitors in Hong Kong.

The above Independent Non-executive Directors are also Independent Non-executive Directors of Wonson International Holdings Limited, which is deemed under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") to have an interest in the share capital of the Company disclosable to the Company under the provisions of Part II of the SDI Ordinance.

Senior Management

The Group's Senior Management responsibilities are assumed by the Executive Directors of the Company.

DIRECTORS' INTERESTS IN SHARES

There were:

- (i) no interests held as at 31 December 2002 by the Directors and Chief Executive of the Company in, and
- (ii) no exercises during the year, by the Directors or Chief Executive of the Company or any of their spouses or children under eighteen years of age, of right to subscribe for,

securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register kept by the Company under section 29 of the SDI Ordinance or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Report of the Directors (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 10% or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 31 December 2002 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

| Name | No. of ordinary shares | Percentage of interest |
|--|---------------------------|---------------------------|
| (i) E-Tech Pacific Limited | 10,210,000 | 34.87% |
| (ii) Wonson International Holdings Limited | 10,210,000 | 34.87% |

Note: For the avoidance of doubt, it should be noted that duplication occurs in respect of the above-stated shareholdings to the extent that the shareholdings stated against party (i) above are entirely duplicated or included in the shareholdings stated against party (ii) above; the above named parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at 31 December 2002.

INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Group and the Company had no bank loans, overdrafts and/or other borrowings at 31 December 2002.

Report of the Directors (Continued)

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 42 of the annual report.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Independent Non-executive Directors were not appointed for a specific term, but are subject to retirement by rotation at the Company's annual general meeting, as specified by the Company's Memorandum and Articles of Association. In the opinion of the Directors, this meets the same objective as the Code of Best Practice set out in the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Save as aforesaid, the Company has been in compliance with the Code of Best Practice as set out in the Listing Rules throughout the year 2002.

PENSION SCHEME

The Group operates a Mandatory Provident Fund Scheme. Particulars of this retirement scheme are set out in note 18 on the financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

(i) EMOLUMENTS OF DIRECTORS

Details of emoluments of the Directors of the Company are set out in note 4(b) to the financial statements on page 30.

The aggregate emoluments paid or payable by the Company and/or its subsidiaries for the year ended 31 December 2002 in respect of each of the persons who was a Director of the Company at any time during the financial year amounted to less than HK\$1,000,000.

(ii) FIVE HIGHEST PAID EMPLOYEES

The aggregate emoluments of five highest paid employees for the year ended 31 December 2002 amounted to less than HK\$1,000,000.

Report of the Directors (Continued)

AUDITORS

The financial statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for reappointment.

By order of the board

Chiu Tao

Chairman

Hong Kong, 26 March 2003



Auditors' Report

TO THE SHAREHOLDERS OF BEAUFORTE INVESTORS CORPORATION LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 12 to 40 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 26 March 2003

Consolidated Profit and Loss Account

For the year ended 31 December 2002

| | <i>Note</i> | 2002 HK\$million | 2001 HK\$million |
|--|-------------|---------------------|---------------------|
| Turnover | 2 | 21.8 | 24.0 |
| Other net income | 3 | 0.9 | 10.9 |
| Administrative and corporate expenses | | (5.7) | (2.1) |
| Impairment losses on investments | 11 | <u>(21.1)</u> | <u>—</u> |
| (Loss)/profit before taxation | 2 & 4 | (4.1) | 32.8 |
| Taxation | 5(a) | <u>(1.3)</u> | <u>(0.2)</u> |
| (Loss)/profit attributable to shareholders | 6 | <u>(5.4)</u> | <u>32.6</u> |
| (Loss)/earnings per share | 8 | <u>HK\$(0.18)</u> | <u>HK\$1.11</u> |

The notes on pages 18 to 40 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2002

| | <i>Note</i> | 2002 HK\$million | 2001 HK\$million |
|---------------------------------------|-------------|---------------------|---------------------|
| Non-current assets | | | |
| Investment property | 10 | 320.0 | — |
| Long term investments | 11 | 282.0 | 263.0 |
| Interest in jointly controlled entity | 12 | 19.5 | — |
| | | <u>621.5</u> | <u>263.0</u> |
| Current assets | | | |
| Debtors and prepayments | 13 | 3.6 | 2.1 |
| Deposits and cash | | 14.5 | 404.0 |
| | | <u>18.1</u> | <u>406.1</u> |
| Current liabilities | | | |
| Creditors and accrued charges | 14 | 1.1 | 1.1 |
| Taxation | 5(b) | 0.2 | — |
| | | <u>1.3</u> | <u>1.1</u> |
| Net current assets | | <u>16.8</u> | <u>405.0</u> |
| Net assets | | <u>638.3</u> | <u>668.0</u> |
| Capital and reserves | | | |
| Share capital | 15 | 117.1 | 117.1 |
| Reserves | 16 | 521.2 | 550.9 |
| | | <u>638.3</u> | <u>668.0</u> |

Approved and authorised for issue by the Board of Directors on 26 March 2003

Chiu Tao
Chairman

Tsui Ching Hung
Director

The notes on pages 18 to 40 form part of these financial statements.

Balance Sheet

As at 31 December 2002

| | | Company | |
|-------------------------------|------|---------------------|---------------------|
| | Note | 2002 | 2001 |
| | | HK\$million | HK\$million |
| Non-current assets | | | |
| Interest in subsidiaries | 17 | <u>536.0</u> | <u>539.9</u> |
| Current assets | | | |
| Debtors and prepayments | 13 | 0.2 | 0.1 |
| Deposits and cash | | <u>0.2</u> | <u>0.1</u> |
| | | 0.4 | 0.2 |
| Current liabilities | | | |
| Creditors and accrued charges | 14 | <u>0.9</u> | <u>1.0</u> |
| Net current liabilities | | <u>(0.5)</u> | <u>(0.8)</u> |
| Net assets | | <u><u>535.5</u></u> | <u><u>539.1</u></u> |
| Capital and reserves | | | |
| Share capital | 15 | 117.1 | 117.1 |
| Reserves | 16 | <u>418.4</u> | <u>422.0</u> |
| | | <u><u>535.5</u></u> | <u><u>539.1</u></u> |

Approved and authorised for issue by the Board of Directors on 26 March 2003

Chiu Tao
Chairman

Tsui Ching Hung
Director

The notes on pages 18 to 40 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

| | <i>Note</i> | 2002 HK\$million | 2001 HK\$million |
|---|-------------|---------------------|---------------------|
| Shareholders' equity at 1 January | | <u>668.0</u> | <u>627.6</u> |
| (Deficit)/surplus on revaluation of non-trading securities | 16 | (75.4) | 10.5 |
| Surplus on revaluation of investment property | 16 | <u>30.0</u> | <u>—</u> |
| Net (losses)/gains not recognised in the consolidated profit and loss account | | <u>(45.4)</u> | <u>10.5</u> |
| Net (loss)/profit for the year | 16 | <u>(5.4)</u> | <u>32.6</u> |
| Transfer of investment revaluation deficit to the consolidated profit and loss account on impairment of non-trading securities | 16 | 21.1 | — |
| Transfer of investment revaluation surplus to the consolidated profit and loss account on disposal of non-trading securities | 16 | <u>—</u> | <u>(2.7)</u> |
| | | <u>21.1</u> | <u>(2.7)</u> |
| Shareholders' equity at 31 December | | <u><u>638.3</u></u> | <u><u>668.0</u></u> |

The notes on pages 18 to 40 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2002

| | 2002 HK\$million | 2001 HK\$million (restated) |
|--|---|---|
| Operating activities | | |
| (Loss)/profit before taxation | (4.1) | 32.8 |
| Adjustments for: | | |
| Interest income from deposits and advances | (4.7) | (18.8) |
| Dividend income from listed securities | (2.3) | (3.0) |
| Interest income from debt securities | (5.0) | (2.2) |
| Gain on disposal of non-trading securities | — | (10.3) |
| Impairment losses on investments | 21.1 | — |
| | <hr/> | <hr/> |
| Operating profit/(loss) before changes in working capital | 5.0 | (1.5) |
| Increase in debtors and prepayments | (0.2) | (0.1) |
| Decrease in creditors and accrued charges | — | (0.3) |
| | <hr/> | <hr/> |
| Cash generated from/used in operations | 4.8 | (1.9) |
| Interest received from deposits and advances | 4.7 | 19.1 |
| Income received from listed securities | 2.3 | 3.4 |
| Interest received from debt securities | 3.7 | — |
| Hong Kong Profits Tax paid | (0.1) | (0.2) |
| Overseas tax paid | (1.0) | — |
| | <hr/> | <hr/> |
| Net cash from operating activities | 14.4 | 20.4 |
| | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Investing activities | | |
| Payment for purchase of investment property | (290.0) | — |
| Payment for investment in a jointly controlled entity | (19.5) | — |
| Purchase of non-trading equity securities | (35.4) | (146.0) |
| Proceeds from disposal of non-trading equity securities | — | 52.8 |
| Purchase of unlisted convertible notes | (59.0) | (48.7) |
| Redemption of held-to-maturity securities | — | 5.0 |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (403.9) | (136.9) |
| | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2002

| | 2002 HK\$million | 2001 HK\$million (restated) |
|---|---------------------|-----------------------------------|
| Net decrease in cash and cash equivalents | (389.5) | (116.5) |
| Cash and cash equivalents at 1 January | <u>404.0</u> | <u>520.5</u> |
| Cash and cash equivalents at 31 December | <u><u>14.5</u></u> | <u><u>404.0</u></u> |
| Analysis of the balances of cash and cash equivalents | | |
| Deposits and cash | <u><u>14.5</u></u> | <u><u>404.0</u></u> |

Notes to the Financial Statements

1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is accounted for in accordance with note 1(h).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(n)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is accounted for in accordance with note 1(h).

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer, in which case it is stated at fair value with changes in fair value recognised in the same way as set out in note 1(h). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the jointly controlled entities for the period, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

In the Company's balance sheet, an investment in a jointly controlled entity is stated at cost less impairment losses (see note 1(n)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer, in which case, it is stated at fair value with changes in fair value recognised in the same way as set out in note 1(h).

(e) Goodwill

Positive goodwill arising on consolidation, representing the excess of the cost of investments in controlled subsidiaries and jointly controlled entities over the appropriate share of the fair value of the identifiable assets and liabilities at date of acquisition, is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill arising from acquisition of controlled subsidiaries are stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(n)) while the positive goodwill arising from acquisition of jointly controlled entities are included in the carrying amount of jointly controlled entities and stated at cost less any accumulated amortisation and any impairment losses (see note 1(n)).

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Goodwill (Continued)

Negative goodwill arising on acquisitions of subsidiaries and jointly controlled entities represents the excess of the appropriate share of the fair value of the separable net assets at the date of acquisition over the cost of investments in subsidiaries and jointly controlled entities.

Negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in jointly controlled entities.

On disposal of a controlled subsidiary or jointly controlled entity, the attributable amount of goodwill is included in calculating the profit or loss on disposal.

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investment properties

- (i) Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers.
- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:
 - when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
 - when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the profit and loss account.
- (iii) On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is also transferred to the profit and loss account for the year.
- (iv) No depreciation is provided on investment property with an unexpired lease term of over 20 years or on freehold land.

(g) Assets held for use in operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group leases out investment properties under operating leases, the assets are included in the balance sheet and accounted for in accordance with note 1(f). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(j).

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Investments in securities

- (i) Held-to-maturity securities are stated in the consolidated balance sheet at amortised cost less any provisions for diminution in value.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as expenses in the consolidated profit and loss account, such provisions being determined for each security individually.

- (ii) Non-trading securities are classified as long term investments in the consolidated balance sheet and stated at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated profit and loss account.

Transfers from the investment revaluation reserve to the consolidated profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment ceased to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

- (iii) Trading securities are classified as short term investments under current assets in the consolidated balance sheet and stated at fair value. Changes in fair value are recognised in the consolidated profit and loss account as they arise.
- (iv) Gains and losses on disposal of investments in securities are accounted for in the consolidated profit and loss account as they arise. In the case of non-trading securities, the gain or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the balance sheet items of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The results of overseas subsidiaries are translated into Hong Kong dollars at the average rates for the year. Differences on foreign currency translation are dealt with in the consolidated profit and loss account with the exception of those arising on the translation of the accounts of overseas subsidiaries which are dealt with in the exchange reserve.

(j) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit and loss account as follows:

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

Dividend income is recognised at the date at which the right to receive payment is established.

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise corporate and administrative expenses and sundry income.

Notes to the Financial Statements (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that investments in subsidiaries and jointly controlled entities may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

Notes to the Financial Statements (Continued)

(o) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.
- (iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individual or other entities.

Notes to the Financial Statements (Continued)

2 TURNOVER/SEGMENTAL REPORTING

Segmental information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Group's activities are comprised of the following two business segments:

(1) Treasury and investment:

The placing of deposits and investment in securities to generate income from interest, dividends and capital appreciation.

Funds are also advanced as loans to other parties on a secured or unsecured basis where suitable opportunities are identified to earn enhanced returns.

(2) Property:

Investment in property assets to generate rental income.

Turnover by segment

| | 2002 HK\$million | 2001 HK\$million |
|-------------------------|---------------------|---------------------|
| Treasury and investment | | |
| Interest income from | | |
| — bank deposits | 2.5 | 15.1 |
| — other loans | 2.2 | 3.7 |
| — debt securities | 5.0 | 2.2 |
| Dividend income | 2.3 | 3.0 |
| | <u>12.0</u> | <u>24.0</u> |
| Property | | |
| Rental income | <u>9.8</u> | <u>—</u> |
| Group turnover | <u><u>21.8</u></u> | <u><u>24.0</u></u> |

Notes to the Financial Statements (Continued)

2 TURNOVER/SEGMENTAL REPORTING (Continued)

Business segments

| | Treasury and investment | | Property | | Unallocated | | Total | |
|--|----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2002 HK\$ million | 2001 HK\$ million | 2002 HK\$ million | 2001 HK\$ million | 2002 HK\$ million | 2001 HK\$ million | 2002 HK\$ million | 2001 HK\$ million |
| Segment result | (8.3) | 34.5 | 8.3 | — | — | — | — | 34.5 |
| Unallocated expenses | — | — | — | — | (4.1) | (1.7) | (4.1) | (1.7) |
| (Loss)/profit before taxation | (8.3) | 34.5 | 8.3 | — | (4.1) | (1.7) | (4.1) | 32.8 |
| Taxation | (0.3) | (0.2) | (1.0) | — | — | — | (1.3) | (0.2) |
| (Loss)/profit attributable to shareholders | <u>(8.6)</u> | <u>34.3</u> | <u>7.3</u> | <u>—</u> | <u>(4.1)</u> | <u>(1.7)</u> | <u>(5.4)</u> | <u>32.6</u> |
| Impairment losses on investments | <u>21.1</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | | |
| Segment assets | 285.3 | 669.1 | 320.0 | — | 14.8 | — | 620.1 | 669.1 |
| Interest in jointly controlled entity | — | — | 19.5 | — | — | — | 19.5 | — |
| Total assets | <u>285.3</u> | <u>669.1</u> | <u>339.5</u> | <u>—</u> | <u>14.8</u> | <u>—</u> | <u>639.6</u> | <u>669.1</u> |
| Segment liabilities | <u>0.2</u> | <u>1.1</u> | <u>—</u> | <u>—</u> | <u>1.1</u> | <u>—</u> | <u>1.3</u> | <u>1.1</u> |
| Capital expenditure incurred | <u>94.4</u> | <u>194.7</u> | <u>309.5</u> | <u>—</u> | <u>—</u> | <u>—</u> | | |

Notes to the Financial Statements (Continued)

2 TURNOVER/SEGMENTAL REPORTING (Continued)

Geographical segments

The Group conducts business in Hong Kong and elsewhere in the People's Republic of China ("PRC").

In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of the underlying assets which generate the turnover. Segment assets and capital expenditure are based on the geographical location of the assets.

| | Hong Kong | | Rest of PRC | |
|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2002 HK\$ million | 2001 HK\$ million | 2002 HK\$ million | 2001 HK\$ million |
| Turnover | <u>12.0</u> | <u>24.0</u> | <u>9.8</u> | <u>—</u> |
| Segment assets | <u>285.3</u> | <u>669.1</u> | <u>339.5</u> | <u>—</u> |
| Capital expenditure | <u>94.4</u> | <u>194.7</u> | <u>309.5</u> | <u>—</u> |

3 OTHER NET INCOME

| | 2002 HK\$million | 2001 HK\$million |
|---|---------------------|---------------------|
| Net realised gain on disposal of securities, net of surplus transferred from investment revaluation reserve (2001: HK\$2.7 million) | — | 10.3 |
| Write-back of unclaimed dividends | — | 0.4 |
| Commission income | 0.9 | — |
| Other income | — | 0.2 |
| | <u>0.9</u> | <u>10.9</u> |

Notes to the Financial Statements (Continued)

4 (LOSS)/PROFIT BEFORE TAXATION

| | 2002 HK\$million | 2001 HK\$million |
|---|---------------------|---------------------|
| (a) (Loss)/profit before taxation is arrived at after charging: | | |
| Salaries, wages and other benefits | 0.1 | — |
| Auditors' remuneration | 0.7 | 0.6 |
| | <u> </u> | <u> </u> |
| and crediting: | | |
| Rental income less outgoings of HK\$2.2 million (2001: HK\$Nil) | 7.6 | — |
| | <u> </u> | <u> </u> |

(b) Directors' emoluments

For the year under review, total emoluments (including any reimbursement of expenses) amounting to HK\$300,000 (2001: HK\$300,000), being wholly in the form of Directors' fees, were paid/payable to Independent Non-executive Directors of the Company.

5 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

| | 2002 HK\$million | 2001 HK\$million |
|---|---------------------|---------------------|
| The Company and subsidiaries | | |
| Provision for Hong Kong Profits Tax at 16% on the estimated assessable profits for the year | 0.3 | 0.2 |
| Taxation outside Hong Kong provided for at the applicable rates of taxation on the estimated assessable profits for the year arising in the relevant tax jurisdictions | 1.0 | — |
| | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> |
| | 1.3 | 0.2 |
| | <u> </u> | <u> </u> |

Notes to the Financial Statements (Continued)

5 TAXATION (Continued)

(b) Taxation in the balance sheets represents:

| | 2002 HK\$million | 2001 HK\$million |
|--|---------------------|---------------------|
| The Company and subsidiaries | | |
| Provision for Hong Kong Profits Tax at 16% on the estimated assessable profits for the year | 0.3 | 0.2 |
| Provisional Hong Kong Profits Tax paid | (0.1) | (0.2) |
| | <u>0.2</u> | <u>—</u> |

(c) No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

6 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$3.6 million (2001: profit of HK\$226.9 million).

7 DIVIDENDS

The Board of Directors does not recommend the payment of any dividends for the year (2001: HK\$Nil).

8 (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the loss attributable to shareholders for the year of HK\$5.4 million (2001: profit of HK\$32.6 million) and 29,282,000 shares in issue throughout the year and the preceding year. There were no dilutive potential ordinary shares in existence during the year.

9 CHANGE IN ACCOUNTING POLICY

The Group has adopted the revised Statements of Standard Accounting Practice (“SSAPs”) which became effective on 1 January 2002 including SSAP 1 (revised) “Presentation of financial statements” and SSAP 15 (revised) “Cash flow statements”. Except for the reclassification of comparative figures, the adoption of these revised SSAPs has no material effect on the Group’s financial results for the years presented.

Notes to the Financial Statements (Continued)

10 INVESTMENT PROPERTY

The Group

| | HK\$million |
|-------------------------------------|--------------|
| Cost or valuation: | |
| At 1 January 2002 | — |
| Additions | |
| — through acquisition of subsidiary | 290.0 |
| Surplus on revaluation | 30.0 |
| | <u>320.0</u> |
| At 31 December 2002 | <u>320.0</u> |
| Representing: | |
| Valuation - 2002 | <u>320.0</u> |

The investment property is situated in Jinan City, Shandong Province, in the People's Republic of China ("PRC"), and held under a medium-term lease.

The investment property was acquired from an unrelated third party during the year for cash consideration of HK\$290.0 million. In accordance with the Group's accounting policy on investment properties, it was revalued at 31 December 2002 by B.I. Appraisals Limited, an independent firm of surveyors, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis calculated by using the "direct comparison" approach, assuming such property interest is sold in its existing state on a strata-titled basis and by making reference to comparable sales evidence or offerings as available in the relevant market. The revaluation surplus of HK\$30.0 million has been transferred to the investment property revaluation reserve (note 16).

The Group leases out the investment property under an operating lease. The lease runs for an initial period of one year expiring on 30 June 2003, with an option to renew the lease after that date at which time all terms are renegotiated. The lease does not include contingent rentals.

The Group's total future minimum lease rentals under non-cancellable operating leases are receivable as follows:

| | 2002 HK\$million | 2001 HK\$million |
|---------------|---------------------|---------------------|
| Within 1 year | <u>15.5</u> | <u>—</u> |

Notes to the Financial Statements (Continued)

11 LONG TERM INVESTMENTS

| | | Group |
|---------------------------------------|-----|--------------|
| | | 2002 |
| | | 2001 |
| | | HK\$million |
| | | HK\$million |
| Non-trading securities | | |
| Equity securities listed in Hong Kong | (a) | 174.3 |
| Unlisted convertible notes | (b) | 107.7 |
| | | <u>282.0</u> |
| | | <u>263.0</u> |

- (a) The Directors have reviewed the Group's investment portfolio at the balance sheet date and pursuant to this review considered that there was objective evidence of impairment of certain of the Group's equity securities at that date. In accordance with the accounting policies adopted by the Group for investments, the entire cumulative deficit in the investment revaluation reserve relating to these securities, which totalled HK\$21.1 million (2001: HK\$Nil), has been transferred to the consolidated profit and loss account.
- (b) Unlisted convertible notes amounting to HK\$48.7 million and HK\$59.0 million respectively are issued by two companies whose ordinary shares are listed in Hong Kong. The notes bear interest at a rate of 7.5% and 3.5% per annum and mature on 4 July 2004 and 8 May 2005 respectively. The notes may be converted to ordinary shares at any time from the date of issue up to 19 June 2004 and 8 May 2005 respectively. The Group would hold approximately between 8% and 9% of one of the issuers' enlarged issued share capital and between 5% and 7% of the other, in each case, depending on the conversion price(s) at the date(s) of conversion. One of the issuers may redeem the notes at 105% of the outstanding principal amount at any time up to 19 June 2004. Subsequent to the year end, the Group partially disposed of HK\$29.2 million of the HK\$48.7 million holding of convertible notes and the whole amount of the HK\$59.0 million holding of convertible notes to unrelated third parties for consideration of HK\$30.4 million and HK\$60.8 million respectively, representing the par value of the notes plus accrued interest at the date of disposal.

Notes to the Financial Statements (Continued)

12 INTEREST IN JOINTLY CONTROLLED ENTITY

| | 2002 HK\$million | 2001 HK\$million |
|---------------------|---------------------|---------------------|
| Share of net assets | <u>19.5</u> | <u>—</u> |

Details of the jointly controlled entity at 31 December 2002 are as follows:

| Name of company | Place of incorporation and operation | Registered capital | Attributable percentage of equity interest held | Principal activities |
|---|--|-----------------------|--|--|
| ChongQing Technological City Stock Co. Ltd | People's Republic of China | RMB100,000,000 | 40% | Property development and management |

The jointly controlled entity was established for property development, management and related services in ChongQing, the PRC.

Under the terms of the joint venture agreement, the Group has committed to provide capital of RMB40.0 million to the jointly controlled entity, of which approximately RMB20 million had been contributed as at 31 December 2002 with the balance payable by no later than 25 March 2004.

The Group is entitled to a 40% profit sharing interest in the entity. Up to 31 December 2002, the jointly controlled entity has not yet commenced business and no profit or loss was generated for the year.

Subsequent to the balance sheet date, the jointly controlled entity has been disposed of to an unrelated third party for cash consideration of HK\$20.0 million. The Group has been discharged from the outstanding investment of approximately RMB20 million after the disposal.

Notes to the Financial Statements (Continued)

13 DEBTORS AND PREPAYMENTS

Debtors and prepayments comprise interest receivable and sundry prepayments. All of the debtors and prepayments are expected to be recovered within one year.

14 CREDITORS AND ACCRUED CHARGES

Creditors and accrued charges comprise accrued expenses and sundry payables. All of the creditors and accrued charges are expected to be settled within one year.

15 SHARE CAPITAL

| | 2002 HK\$million | 2001 HK\$million |
|---|---------------------|---------------------|
| Authorised: | | |
| 100,000,000 ordinary shares of HK\$4 each | <u>400.0</u> | <u>400.0</u> |
| Issued and fully paid: | | |
| 29,282,000 ordinary shares of HK\$4 each | <u>117.1</u> | <u>117.1</u> |

Notes to the Financial Statements (Continued)

16 RESERVES

| | Share premium HK\$million | Investment property revaluation reserve HK\$million | Investment revaluation reserve HK\$million | Revenue reserve HK\$million | Total HK\$million |
|---|---------------------------------|---|---|-----------------------------------|----------------------|
| (a) The Group | | | | | |
| Balance at 1 January 2001 | 39.3 | — | 2.5 | 468.7 | 510.5 |
| Revaluation surplus transferred to the consolidated profit and loss account on disposal of non-trading securities | — | — | (2.7) | — | (2.7) |
| Revaluation surplus of non-trading securities | — | — | 10.5 | — | 10.5 |
| Profit for the year | — | — | — | 32.6 | 32.6 |
| Balance at 31 December 2001 and 1 January 2002 | 39.3 | — | 10.3 | 501.3 | 550.9 |
| Revaluation surplus of investment property | — | 30.0 | — | — | 30.0 |
| Revaluation deficit of non-trading securities | — | — | (75.4) | — | (75.4) |
| Revaluation deficit transferred to the consolidated profit and loss account on impairment of non-trading securities | — | — | 21.1 | — | 21.1 |
| Loss for the year | — | — | — | (5.4) | (5.4) |
| Balance at 31 December 2002 | 39.3 | 30.0 | (44.0) | 495.9 | 521.2 |

Notes to the Financial Statements (Continued)

16 RESERVES (Continued)

| | Share premium HK\$million | Investment property revaluation reserve HK\$million | Investment revaluation reserve HK\$million | Revenue reserve HK\$million | Total HK\$million |
|---|---------------------------------|---|---|-----------------------------------|----------------------|
| (b) The Company | | | | | |
| Balance at 1 January 2001 | 39.3 | — | — | 155.8 | 195.1 |
| Profit for the year | — | — | — | 226.9 | 226.9 |
| Balance at 31 December 2001 and 1 January 2002 | 39.3 | — | — | 382.7 | 422.0 |
| Loss for the year | — | — | — | (3.6) | (3.6) |
| Balance at 31 December 2002 | 39.3 | — | — | 379.1 | 418.4 |

Reserves of the Company available for distribution to shareholders amount to HK\$379.1 million (2001: HK\$382.7 million).

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

The revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for the revaluation of investment property and non-trading securities.

17 INTEREST IN SUBSIDIARIES

| | 2002 HK\$million | 2001 HK\$million |
|--|---------------------|---------------------|
| Unlisted shares, at cost less impairment | 0.1 | 0.1 |
| Amounts due by subsidiaries | 545.4 | 540.1 |
| Amounts due to subsidiaries | (9.5) | (0.3) |
| | <u>536.0</u> | <u>539.9</u> |

Notes to the Financial Statements (Continued)

17 INTEREST IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31 December 2002, all of which are wholly-owned and have been consolidated into the Group financial statements, are as follows:

| Subsidiaries | Place of incorporation/ operation | Issued and fully paid up share capital (all being ordinary shares) | Principal activities |
|--|---|---|-------------------------|
| <i>(held directly)</i> | | | |
| Golden Mass Investments Limited | British Virgin Islands/International | 1 share of US\$1 each | Holding company |
| I-Active Investments Limited | British Virgin Islands/International | 1 share of US\$1 each | Holding company |
| Maxfull Limited | British Virgin Islands/International | 1 share of US\$1 each | Inactive |
| Willthorn Investments Limited | British Virgin Islands/International | 500 shares of US\$1 each | Holding company |
| <i>(held indirectly)</i> | | | |
| Absolute Profits Limited | British Virgin Islands/International | 1 share of US\$1 each | Inactive |
| Beauforte Finance (International) Limited | Cayman Islands/ International | 500 shares of US\$1 each | Inactive |
| Beauforte Holdings Limited | Hong Kong | 45,000,000 shares of HK\$1 each | Dormant |
| Gold East Limited | British Virgin Islands/International | 1 share of US\$1 each | Inactive |
| Grand Noble Group Limited | British Virgin Islands/International | 2 shares of US\$1 each | Property investment |

Notes to the Financial Statements (Continued)

17 INTEREST IN SUBSIDIARIES (Continued)

| Subsidiaries | Place of incorporation/ operation | Issued and fully paid up share capital (all being ordinary shares) | Principal activities |
|--------------------------------------|---|---|-------------------------|
| <i>(held indirectly) (Continued)</i> | | | |
| Lambda Company Limited | Hong Kong | 2 shares of HK\$1 each | Investment |
| Leader Investment Limited | Hong Kong | 2 shares of HK\$1 each | Inactive |
| Ocean Pearl Investments Limited | British Virgin Islands/International | 1 share of US\$1 each | Inactive |
| Splendid Rewards Limited | British Virgin Islands/International | 500 shares of US\$1 each | Investment |
| United Crown Enterprises Limited | Hong Kong | 2 shares of HK\$1 each | Investment |
| Vason Enterprises Limited | Hong Kong | 2 shares of HK\$1 each | Investment |
| Wincom Investments Limited | Hong Kong | 2 shares of HK\$1 each | Lending |
| Workshop Holdings Limited | British Virgin Islands/International | 500 shares of US\$1 each | Investment |

On 6 August 2002, the Group acquired a 100% interest in Grand Noble Group Limited for HK\$290.0 million, satisfied in cash. The subsidiary contributed to the Group's results for the year by HK\$7.3 million and its net assets increased by HK\$30.0 million pursuant to a revaluation of the subsidiary's investment property.

Notes to the Financial Statements (Continued)

18 DEFINED CONTRIBUTION RETIREMENT PLAN

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

19 MATERIAL RELATED PARTY TRANSACTIONS

During the year, no material related party transactions were entered into by the Group.

20 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) “Cash flow statements”. As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities have been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year’s presentation.

21 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Directors on 26 March 2003.

Group Property

PROPERTY HELD FOR INVESTMENT

| Location | Existing use | Term of lease |
|---|--------------|---------------|
| The southern portion of level 1 to level 4, Qi Lu International Mansion, No. 180 Quancheng Road, Lixia District Jinan City, Shandong Province, the People's Republic of China | Commercial | Medium |

Five Year Financial Summary

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|-------------|-------------|-------------|-------------|-------------|
| | HK\$million | HK\$million | HK\$million | HK\$million | HK\$million |
| Consolidated profit and loss account | | | | | |
| Turnover | <u>33</u> | <u>28</u> | <u>42</u> | <u>24</u> | <u>22</u> |
| Group profit/(loss) attributable to shareholders | 32 | 32 | 9 | 33 | (5) |
| Ordinary dividends | <u>32</u> | <u>21</u> | <u>20</u> | <u>—</u> | <u>—</u> |
| Transferred to/(from) reserves | <u>—</u> | <u>11</u> | <u>(11)</u> | <u>33</u> | <u>(5)</u> |
| Consolidated balance Sheet | | | | | |
| Investment property | — | — | — | — | 320 |
| Associates | 90 | 142 | — | — | — |
| Long term investments | 135 | 104 | 103 | 263 | 282 |
| Jointly controlled entity | — | — | — | — | 20 |
| Current assets | 309 | 402 | 526 | 406 | 18 |
| Current liabilities | <u>(16)</u> | <u>(17)</u> | <u>(1)</u> | <u>(1)</u> | <u>(2)</u> |
| | <u>518</u> | <u>631</u> | <u>628</u> | <u>668</u> | <u>638</u> |
| Share capital | 117 | 117 | 117 | 117 | 117 |
| Reserves | <u>401</u> | <u>514</u> | <u>511</u> | <u>551</u> | <u>521</u> |
| | <u>518</u> | <u>631</u> | <u>628</u> | <u>668</u> | <u>638</u> |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| Earnings/(loss) per share | 1.08 | 1.09 | 0.31 | 1.11 | (0.18) |
| Net assets per share at book value | 17.69 | 21.55 | 21.45 | 22.81 | 21.80 |