

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 ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance.

In the current year, the Group adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

The adoption of these new and revised SSAPs has no material effect on the Group's results other than presentational changes in respect of the presentation of Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement. Certain comparative figures have been reclassified to conform with the current year's presentation.

The principal accounting policies adopted in the preparation of 2002 financial statements are as follows:

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost except that, as disclosed in the accounting policies below, certain investment properties and short-term investments are stated at fair values.

(c) 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 dealt with in the consolidated income statement from the effective dates of acquisition or to the effective dates of disposal respectively, as appropriate.

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/ negative goodwill on acquisition (net of accumulated amortisation).

(f) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

(i) *Jointly controlled entities*

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill /negative goodwill on acquisition (net of accumulated amortisation).

(ii) *Other investment in a joint venture*

Other investment in a joint venture is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided to write-off the investment cost of the joint venture less accumulated impairment losses over the joint venture period on a basis whereby the annual investment income less amortisation for the year would produce a constant periodic rate of return on the carrying amount of the investment in the joint venture. Provision is made when, in the opinion of the directors, there is an impairment in value of investment in a joint venture.

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Goodwill or negative goodwill on consolidation

Goodwill or negative goodwill arising on consolidation represents the deficit or excess, respectively, of the fair value of the separable net assets of the subsidiaries, associated companies and jointly controlled entities at the respective acquisition dates over the value of the considerations paid.

Goodwill on acquisitions occurring on or after 1st January 2001 is capitalised and amortised using the straight-line method over its estimated useful life.

For acquisitions on or after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

Goodwill/negative goodwill on acquisitions that occurred prior to 1st January 2001 was directly eliminated against/taken to reserves and has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill / negative goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill eliminated against/negative goodwill taken to reserves to the extent that it has not previously been realised in the income statement.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously eliminated against reserves, is assessed and written down immediately to its recoverable amount.

(h) Properties

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Properties (Cont'd)

(i) *Investment properties (Cont'd)*

Investment properties held on leases with unexpired periods greater than twenty years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by either independent professional valuers or professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Surpluses arising on revaluation are credited to the investment property revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses on a portfolio basis and thereafter taken to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

Depreciation is provided for investment properties with unexpired lease terms of 20 years or less and is calculated to write-off the carrying value on a straight line basis over the remaining term of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

(ii) *Leasehold land and buildings*

Leasehold land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses. Leasehold land is depreciated over the period of the lease while buildings are depreciated at a rate of 2% per annum.

(iii) *Properties under development for sale*

Properties under development for sale are included in current assets and stated at cost plus attributable profits taken to date, less provisions for any foreseeable losses and sales instalments received and receivable. Cost includes the cost of land, development expenditure, other attributable expenses and borrowing costs capitalised.

The accounting policy for recognition of revenue from sale of properties under development for sale is set out in note 1(v)(i)(1).

(iv) *Completed properties held for sale*

Completed properties held for sale are included as current assets and stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less estimated selling expenses.

The accounting policy for recognition of revenue from sale of completed properties is set out in note 1(v)(i)(2).

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at rates sufficient to write-off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Machinery	16 2/3%
Equipment and motor vehicles	20% – 33 1/3%
Leasehold improvements	20% – 33 1/3%
Furniture and fixtures	20% – 33 1/3%

Major costs incurred in restoring other tangible fixed assets to their normal working condition to allow continued use of the overall assets are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(j) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in leasehold land and buildings and other tangible fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(k) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement.

Provision against the carrying amounts of individual investments should be written back to income statement when the circumstances and events that led to the write-downs cease to exist and there is evidence that the new circumstances and events will persist for the foreseeable future. The amount written back should not exceed the amount of the write-downs.

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) Investments in securities (Cont'd)

(ii) Short-term investments

Short-term investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement. Profits or losses on disposal of short-term investments, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(l) Construction contracts in progress

Construction contracts in progress are stated at cost plus attributable profits less allowances for foreseeable losses and progress payments received and receivable. Contract costs comprise direct materials, direct labour, sub-contracting charges and an appropriate portion of construction overheads. Where progress billings received and receivable on construction contracts exceed contract costs incurred to date plus recognised profits less recognised losses, the net amount is treated as amounts due to contract customers. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings received and receivable on construction contracts, the net amount is treated as amounts due from contract customers.

The accounting policy for recognition of contract revenue is set out in note 1(v)(ii).

(m) Assets under operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases, net of any incentives received from the lessors, are charged to the income statement on a straight-line basis over the lease term.

(n) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(o) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits with banks with maturity less than three months from the date of placement.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(r) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

(s) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheets of subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) Pensions and retirement benefits

Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000, all staff of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK\$1,000. The Group's contributions to this scheme were expensed as incurred. The assets of the scheme were held separately from those of the Group in independently administered funds.

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries in the Mainland China. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the income statement as incurred.

(v) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transactions during the year will flow to the Group and these benefits can be measured reliably on the following bases.

(i) *Sale of properties*

(1) Properties under development for sale

When a development property is sold in advance of completion, recognition of profit commences when a legally binding sale and purchase agreement has been executed. The profit recognised in a year is computed as a proportion of the total estimated profit to completion and such proportion is taken to be the percentage of construction costs incurred at the end of the year to the estimated total construction costs on completion, with due allowance for contingencies. The profit so recognised is restricted to the amount of instalments received.

(2) Completed properties held for sale

Revenue from sale of completed properties held for sale is recognised upon completion of the sale and purchase contracts.

(ii) *Construction contracts*

Revenue from construction contracts is recognised based on the stage of completion of the contracts when the outcome of contract can be ascertained with reasonable certainty. The stage of completion of a contract is established by reference to the gross billing value of contracting work to date as certified by qualified architects and /or engineers as compared to the total sum under the contract.

1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(v) Revenue recognition (Cont'd)

(iii) *Income from other investment in a joint venture*

Income from other investment in a joint venture is recognised when the right to receive investment income is established.

(iv) *Rental income*

Rental income is recognised on a straight line basis over the terms of the respective leases.

(v) *Commission income*

Commission income from agency services is recognised when the terms of the agency contracts are fulfilled upon provision of services.

(vi) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(vii) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in property investment and development, building construction and civil engineering, infrastructure investment and provision of ship trading and supplying services. Turnover and revenues recognised during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sale of properties	178,397	1,415,482
Building construction	312,076	254,413
Income from other investment in a joint venture	19,730	106,636
Gross rental income	56,860	67,510
Commission income	15,350	–
Building management fee income	1,095	804
	583,508	1,844,845
Other revenues		
Interest income	5,636	12,014
Dividend income from listed investment securities	1,836	1,973
	7,472	13,987
Total revenues	590,980	1,858,832

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Primary reporting format – business segments

The Group is organised into five main business segments:

Property development	– development of properties in Hong Kong and the Mainland China
Building construction	– construction of buildings and civil engineering
Infrastructure investment	– investment in a power plant project
Property investment	– holding of properties for rental purpose
Ship trading	– trading of vessels, marine equipment and bareboat charter business

Other operations of the Group comprise mainly holding of investment securities, investment in high technology project and provision of building management services, neither of which are of a sufficient size to be reported separately.

The 2001 inter-segment transactions represented construction services provided by the building construction business of the Group to the Group's property development projects.

Secondary reporting format – geographical segments

The Group's business segments operate in Hong Kong and the Mainland China are as follows:

Hong Kong	– all of the Group's business segments except for infrastructure investment
Mainland China	– property development and investment and infrastructure investment

There are no sales between geographical segments.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Primary reporting format – business segments

	Property development 2002 HK\$'000	Building construction 2002 HK\$'000	Property investment 2002 HK\$'000	Infrastructure investment 2002 HK\$'000	Ship trading 2002 HK\$'000	Other operations 2002 HK\$'000	Group 2002 HK\$'000
Segment turnover of the Group	178,397	312,076	56,860	19,730	15,350	1,095	583,508
Segment results of the Group	(7,122)	(102,427)	(224,549)	(143,493)	4,612	(16,865)	(489,844)
Unallocated corporate expenses, net of income							(17,993)
Operating loss							(507,837)
Finance costs							(32,442)
Share of results of associated companies	-	1,947	-	-	-	-	1,947
Share of results of jointly controlled entities	9,594	-	-	-	-	(2,352)	7,242
Loss before taxation							(531,090)
Taxation							(14,311)
Loss after taxation							(545,401)
Minority interests							7,345
Loss attributable to shareholders							(538,056)

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Primary reporting format – business segments (Cont'd)

	Property development	Building construction	Property investment	Infrastructure investment	Ship trading	Other operations	Group
	2002	2002	2002	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	474,975	220,217	1,105,567	100,339	93,163	-	1,994,261
Associated companies	-	2,784	-	-	-	-	2,784
Jointly controlled entities	262,746	-	-	-	-	-	262,746
Investment securities	-	-	-	-	-	62,645	62,645
Unallocated assets							190,118
Total assets							<u>2,512,554</u>
Segment liabilities	127,544	507,471	792,820	42	18,443	-	1,446,320
Taxation							5,622
Unallocated liabilities							8,324
Total liabilities							<u>1,460,266</u>
The segment results have been arrived at after charging:							
Depreciation and amortisation	2,689	2,843	21,016	19,335	1,464	-	47,347
Deficit on revaluation of investment properties	-	-	45,900	-	-	-	45,900
Impairment loss on a leasehold land and building	-	-	207,000	-	-	-	207,000
Impairment loss on other investment in a joint venture	-	-	-	140,798	-	-	140,798
Provision for diminution in value of investment securities	-	-	-	-	-	13,650	13,650
Provision for claims and foreseeable losses on certain construction contracts	-	87,729	-	-	-	-	87,729
Provision for completed properties held for sale	<u>43,966</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,966</u>
Capital expenditure	<u>1,166</u>	<u>1,426</u>	<u>-</u>	<u>-</u>	<u>470</u>	<u>-</u>	<u>3,062</u>

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Primary reporting format – business segments (Cont'd)

	Property development 2001 HK\$'000	Building construction 2001 HK\$'000	Property investment 2001 HK\$'000	Infrastructure investment 2001 HK\$'000	Other operations 2001 HK\$'000	Group 2001 HK\$'000
Segment revenue	1,415,482	339,346	67,510	106,636	804	1,929,778
Inter-segment transactions	–	(84,933)	–	–	–	(84,933)
Segment turnover of the Group	<u>1,415,482</u>	<u>254,413</u>	<u>67,510</u>	<u>106,636</u>	<u>804</u>	<u>1,844,845</u>
Segment results	29,798	9,929	(1,536)	17,867	(124,863)	(68,805)
Inter-segment transactions	–	(16,751)	–	–	–	(16,751)
Segment results of the Group	<u>29,798</u>	<u>(6,822)</u>	<u>(1,536)</u>	<u>17,867</u>	<u>(124,863)</u>	<u>(85,556)</u>
Unallocated corporate expenses, net of income						<u>(21,408)</u>
Operating loss						(106,964)
Finance costs						(51,241)
Share of results of associated companies	–	76	–	–	–	76
Share of results of jointly controlled entities	2,084	–	–	–	(4,253)	<u>(2,169)</u>
Loss before taxation						(160,298)
Taxation						<u>(7,353)</u>
Loss after taxation						(167,651)
Minority interests						<u>(447)</u>
Loss attributable to shareholders						<u>(168,098)</u>

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Primary reporting format – business segments (Cont'd)

	Property development 2001 HK\$'000	Building construction 2001 HK\$'000	Property investment 2001 HK\$'000	Infrastructure investment 2001 HK\$'000	Other operations 2001 HK\$'000	Group 2001 HK\$'000
Segment assets	1,051,103	300,633	1,385,540	243,256	–	2,980,532
Associated companies	–	837	–	–	–	837
Jointly controlled entities	208,757	–	–	–	3,970	212,727
Investment securities	–	–	–	–	103,354	103,354
Unallocated assets						121,384
Total assets						<u>3,418,834</u>
Segment liabilities	473,469	543,519	790,911	243	–	1,808,142
Taxation						12,407
Unallocated liabilities						9,227
Total liabilities						<u>1,829,776</u>
The segment results have been arrived at after charging:						
Depreciation and amortisation	2,451	4,869	21,119	88,343	–	116,782
Deficit on revaluation of investment properties	–	–	45,000	–	–	45,000
Provision for diminution in value of an investment security	–	–	–	–	128,800	128,800
Provision for completed properties held for sale	8,000	–	–	–	–	8,000
Capital expenditure	<u>350</u>	<u>672</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,022</u>

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Secondary reporting format – geographical segments (Cont'd)

	Turnover 2002 HK\$'000	Segment results 2002 HK\$'000	Total assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
Hong Kong	381,436	(379,157)	1,556,878	2,919
Mainland China	202,072	(110,687)	437,383	143
	<u>583,508</u>	<u>(489,844)</u>	<u>1,994,261</u>	<u>3,062</u>
Unallocated corporate expenses, net of income		<u>(17,993)</u>		
Operating loss		<u>(507,837)</u>		
Associated companies			2,784	
Jointly controlled entities			262,746	
Investment securities			62,645	
Unallocated assets			<u>190,118</u>	
			<u>2,512,554</u>	
	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000	2001 HK\$'000
Hong Kong	1,562,344	(121,250)	2,149,397	672
Mainland China	282,501	35,694	831,135	350
	<u>1,844,845</u>	<u>(85,556)</u>	<u>2,980,532</u>	<u>1,022</u>
Unallocated corporate expenses, net of income		<u>(21,408)</u>		
Operating loss		<u>(106,964)</u>		
Associated companies			837	
Jointly controlled entities			212,727	
Investment securities			103,354	
Unallocated assets			<u>121,384</u>	
			<u>3,418,834</u>	

3 OPERATING LOSS

Operating loss is arrived at after crediting/(charging) the follows:

	2002 HK\$'000	2001 HK\$'000
Net rental income (note (a))	55,267	66,053
Net realised and unrealised gains on investments in securities	6,689	2,211
Gain on disposal/write-off of fixed assets	207	351
Depreciation (note (c))	(26,995)	(28,439)
Operating lease rental expense (note (d))	(800)	(76)
Auditors' remuneration	(950)	(800)
Amortisation of goodwill (note 9)	(1,017)	–
Amortisation of the cost of other investment in a joint venture (note 14)	(19,335)	(88,343)
Staff costs including directors' emoluments (note (e))	(35,153)	(35,095)
Provision for doubtful debts	(12,861)	(4,615)
Other charges		
Deficit on revaluation of investment properties	(45,900)	(45,000)
Impairment loss on a leasehold land and building	(207,000)	–
Impairment loss on other investment in a joint venture	(140,798)	–
Provision for diminution in value of investment securities	(13,650)	(128,800)
Provision for claims and foreseeable losses on certain construction contracts	(87,729)	–
Provision for completed properties held for sale	(43,966)	(8,000)
	(539,043)	(181,800)

(a) Net rental income

	2002 HK\$'000	2001 HK\$'000
Gross rental income from		
Investment properties	21,327	24,980
Other properties	35,533	42,530
	56,860	67,510
Outgoings	(1,593)	(1,457)
	55,267	66,053

3 OPERATING LOSS (Cont'd)

(b) Future minimum rental payments receivable

The future minimum rental receivable under non-cancellable leases are as follows:

	2002	2001
	HK\$'000	HK\$'000
In the first year	54,193	54,860
In the second to third years inclusive	10,623	51,001
	64,816	105,861

The Group's operating leases are for terms ranging from one to three years.

(c) Depreciation

	2002	2001
	HK\$'000	HK\$'000
Charge for the year	28,614	30,285
Capitalised in construction contracts in progress	(1,619)	(1,846)
	26,995	28,439

(d) Operating lease rental expense

	2002	2001
	HK\$'000	HK\$'000
Land and buildings	800	76
Plant and machinery	898	7,523
	1,698	7,599
Capitalised in construction contracts in progress	(898)	(4,534)
Capitalised in properties under development for sale	–	(2,989)
	800	76

3 OPERATING LOSS (Cont'd)**(e) Staff costs, including directors' emoluments**

	2002	2001
	HK\$'000	HK\$'000
Wages and salaries	54,568	78,251
Pension costs – defined contribution scheme	843	587
Staff costs, including directors' emoluments	55,411	78,838
Capitalised in construction contracts in progress	(20,258)	(27,413)
Capitalised in properties under development for sale	–	(16,330)
	35,153	35,095

4 FINANCE COSTS

	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	36,151	106,626
Other borrowing costs	1,967	5,663
Capitalised in construction contracts in progress	38,118	112,289
Capitalised in properties under development for sale	(290)	(100)
	(5,386)	(60,948)
	32,442	51,241

5 TAXATION

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the year. In 2001, no Hong Kong profits tax had been provided as there was no estimated assessable profit.

Mainland China taxation has been calculated on the estimated assessable profit derived from the Group's operations in Mainland China for the year at the rates of taxation prevailing in the Mainland China.

The amount of taxation charged for the year to the consolidated income statement represents:

	2002	2001
	HK\$'000	HK\$'000
Company and subsidiaries		
– Hong Kong taxation	367	–
– Mainland China taxation	8,815	6,894
Share of taxation of a jointly controlled entity	5,129	459
	14,311	7,353

6 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$468,528,000 (2001:HK\$178,466,000).

7 LOSS PER SHARE

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$538,056,000 (2001:HK\$168,098,000) and the 1,394,389,291 (2001: the weight average of 1,389,789,044) shares in issue during the year.

There was no potential dilutive shares in issue during the year. For 2001, no diluted loss per share was presented as the effect of the potential shares would have been anti-dilutive.

8 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT**(a) Directors' emoluments**

Details of the emoluments paid and payable to the directors of the Company are as follows:

	2002	2001
	HK\$'000	HK\$'000
Fees	345	310
Salaries and other emoluments	6,784	9,500
	7,129	9,810

Emoluments paid and payable to independent non-executive directors of the Company amounted to HK\$345,000 (2001: HK\$310,000) during the year.

The emoluments of the directors of the Company fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
	HK\$'000	HK\$'000
HK\$Nil – HK\$1,000,000	10	10
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	0
HK\$3,000,001 – HK\$3,500,000	1	0
HK\$7,500,001 – HK\$8,000,000	–	1
	13	12

The above analysis includes three (2001: two) directors whose emoluments were among the five highest in the Group.

8 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

(b) Senior management's emoluments

Details of the emoluments paid to the remaining two (2001: three) individuals, whose emoluments were among the five highest in the Group and have not been included in the directors' emoluments mentioned above, are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other emoluments	<u>2,820</u>	<u>4,864</u>

The emoluments of the individuals fell within the following bands:

Emolument bands	Number of individuals	
	2002	2001
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
	<u>2</u>	<u>3</u>

9 GOODWILL

	2002 HK\$'000	2001 HK\$'000
At 1st January	–	–
Acquisition of subsidiaries	40,675	–
Amortisation	<u>(1,017)</u>	–
At 31st December	<u>39,658</u>	–

10 FIXED ASSETS

Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Cost or valuation						
At 1st January 2002	386,000	1,055,965	47,709	9,866	5,612	1,505,152
Acquisition of subsidiaries	-	3,560	3,324	1,206	1,189	9,279
Additions	-	-	2,585	299	178	3,062
Revaluation	(45,900)	-	-	-	-	(45,900)
Disposals/write-off	-	-	(1,844)	-	(70)	(1,914)
At 31st December 2002	340,100	1,059,525	51,774	11,371	6,909	1,469,679
Accumulated depreciation and impairment						
At 1st January 2002	-	79,160	35,906	8,319	5,014	128,399
Acquisition of subsidiaries	-	1,638	1,792	1,080	1,186	5,696
Charge for the year	-	21,185	5,645	1,442	342	28,614
Impairment charge	-	207,000	-	-	-	207,000
Disposals/ write-off	-	-	(1,700)	-	(70)	(1,770)
At 31st December 2002	-	308,983	41,643	10,841	6,472	367,939
Net book value						
At 31st December 2002	340,100	750,542	10,131	530	437	1,101,740
At 31st December 2001	386,000	976,805	11,803	1,547	598	1,376,753

The analysis of the cost or valuation at 31st December 2002 of the above assets is as follows:

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
At cost	-	1,059,525	51,774	11,371	6,909	1,129,579
At professional valuation	340,100	-	-	-	-	340,100
At 31st December 2002	340,100	1,059,525	51,774	11,371	6,909	1,469,679

10 FIXED ASSETS (Cont'd)

Group (Cont'd)

The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows:

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
At cost	–	1,055,965	47,709	9,866	5,612	1,119,152
At professional valuation	386,000	–	–	–	–	386,000
At 31st December 2001	<u>386,000</u>	<u>1,055,965</u>	<u>47,709</u>	<u>9,866</u>	<u>5,612</u>	<u>1,505,152</u>

As at 31st December 2002, the cost and accumulated depreciation and impairment of land and buildings that are leased to an intermediate holding company and certain fellow subsidiaries were HK\$809,862,000 (2001: HK\$874,142,000) and HK\$235,986,000 (2001: HK\$64,735,000) respectively.

The Group's interests in investment properties and other properties at their cost or valuation are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
In Hong Kong, held on leases of between 10 and 50 years	1,368,965	1,415,965
Outside Hong Kong, held on leases of between 10 and 50 years	3,560	–
Outside Hong Kong, held on leases of over 50 years	27,100	26,000
	<u>1,399,625</u>	<u>1,441,965</u>

The investment properties were revalued at 31st December 2002 on the basis of their open market value by an independent firm of Chartered Surveyors, DTZ Debenham Tie Leung Limited.

As at 31st December 2002, investment properties in Hong Kong of HK\$313,000,000 (2001: HK\$360,000,000) and other properties in Hong Kong of HK\$738,806,000 (2001: HK\$966,686,000) were pledged as securities to a bank in respect of certain banking facilities granted to the Group.

10 FIXED ASSETS (Cont'd)**Company**

	Machinery, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Cost				
At 1st January 2002	3,286	7,203	1,124	11,613
Additions	388	141	4	533
Disposals/write off	(500)	–	–	(500)
At 31st December 2002	3,174	7,344	1,128	11,646
Accumulated depreciation				
At 1st January, 2002	2,354	5,754	882	8,990
Charge for the year	587	1,373	210	2,170
Disposals/write off	(483)	–	–	(483)
At 31st December 2002	2,458	7,127	1,092	10,677
Net book value				
At 31st December 2002	716	217	36	969
At 31st December 2001	932	1,449	242	2,623

11 SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	–	–
Amounts due from	3,539,640	3,500,750
Amounts due to	(153,402)	(119,505)
	3,386,238	3,381,245
Provision for diminution in value	(1,572,171)	(1,116,400)
	1,814,067	2,264,845

Particulars of the principal subsidiaries which, in the opinion of the directors, principally affect the results and/or assets of the Group at 31st December 2002 are set out in note 32 to the financial statements.

12 ASSOCIATED COMPANIES

	2002	Group
	HK\$'000	2001 HK\$'000
Share of net assets	8,490	6,543
Amounts due to associated companies	(5,706)	(5,706)
	2,784	837

13 JOINTLY CONTROLLED ENTITIES

	2002	Group
	HK\$'000	2001 HK\$'000
Share of net assets	55,083	52,308
Amounts due from jointly controlled entities, less provision	207,661	160,419
	262,744	212,727

Particulars of the jointly controlled entities of the Group at 31st December 2002 are set out as follows:

Name	Place of incorporation	Principal activities	Percentage of interest held
深圳艾科創新微電子有限公司 (Ark Pioneer Microelectronics (Shenzhen) Limited)	The People's Republic of China ("PRC")	Development and design of integrated circuit	51
Beijing Tian Lin Property Development Co., Ltd.	PRC	Property development	49

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed repayment terms.

On 30th January 2003, the Group entered into a conditional agreement for the sale of its entire interest in 深圳艾科創新微電子有限公司 (Ark Pioneer Microelectronics (Shenzhen) Limited) at a cash consideration of approximately HK\$10,635,000.

14 OTHER INVESTMENT IN A JOINT VENTURE

	2002	Group
	HK\$'000	2001 HK\$'000
Cost		
At 1st January	634,454	634,454
Accumulated amortisation and impairment		
At 1st January	(396,453)	(308,110)
Charge for the year	(19,335)	(88,343)
Impairment	(140,798)	–
At 31st December	(556,586)	(396,453)
Net book value as at 31st December	77,868	238,001

New Central International Enterprises Company, Limited (“New Central”), a 90% indirectly owned subsidiary of the Company, holds a 54 % interest in the registered capital of Henan Xin Zhong Yi Electric Power Company, Limited (“Xinzhongyi”), a sino-foreign co-operative joint venture which owns the operating right of Xinxiang Power Plant in Henan Province, the PRC. Xinzhongyi was established on 23rd February, 1995 with a joint venture period of twenty years and commenced its operations in October 1995. Pursuant to the joint venture agreement dated 8th September 1994 entered into by New Central and other joint venture partners (the “Xinzhongyi Contract”), New Central, up to 30th September 2001, is entitled to receive 60% of the after tax profit of Xinzhongyi which is equal to or below RMB229.97 million; all profit exceeding such amount will be attributable to the PRC joint venture partner. From 1st October 2001 until the end of the joint venture period, New Central will receive 30% of the after tax profit of Xinzhongyi which is equal to or below RMB160 million; all profit exceeding such amount will be shared amongst all of the joint venture partners in accordance with their respective proportional interests in the registered capital of Xinzhongyi.

Upon the termination of the joint venture period, all the remaining assets of Xinzhongyi will revert to the PRC joint venture partner in accordance with the Xinzhongyi Contract.

15 INVESTMENT SECURITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Listed equity securities in Hong Kong, at cost	492,397	519,456
Unlisted equity securities outside Hong Kong at cost	12,698	12,698
	<u>505,095</u>	<u>532,154</u>
Provision for diminution in value	(442,450)	(428,800)
	<u>62,645</u>	<u>103,354</u>
Market value of listed securities	<u>29,847</u>	<u>56,723</u>

16 PROPERTIES UNDER DEVELOPMENT FOR SALE

	Group	
	2002 HK\$'000	2001 HK\$'000
Cost incurred plus attributable profits	617,603	492,393
Sales instalments received	(452,403)	(245,473)
	<u>165,200</u>	<u>246,920</u>

17 COMPLETED PROPERTIES HELD FOR SALE

At 31st December 2002, the carrying amount of completed properties held for sale that are carried at net realisable value amounted to HK\$66,428,000 (2001: HK\$14,676,000).

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Net amounts due from customers for contract work (note 19)	15,204	25,113	–	–
Trade receivables	74,118	419,230	–	–
Retention receivables	46,531	65,063	–	–
Deposits, prepayments and other receivables	45,864	36,754	4,005	2,108
Amounts due from fellow subsidiaries	100	641	33	32
	<u>181,817</u>	<u>546,801</u>	<u>4,038</u>	<u>2,140</u>

18 TRADE AND OTHER RECEIVABLES (Cont'd)

The Group's revenue from building construction contracts is billed according to certified progress billings, revenue from sales of properties and other operating revenues are billed according to terms of the relevant contracts governing the transactions. All invoices billed are repayable upon presentation of invoices.

As at 31st December 2002, the ageing analysis of trade receivables was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current – 90 days	56,864	409,581
91 days – 180 days	5,821	–
Over 180 days	11,433	9,649
	<u>74,118</u>	<u>419,230</u>

19 CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2002 HK\$'000	2001 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	5,712,252	4,664,677
Progress billings received and receivable	<u>(5,825,284)</u>	<u>(4,702,277)</u>
	<u>(113,032)</u>	<u>(37,600)</u>
Representing:		
Net amounts due from customers for contract work included in trade and other receivables (note 18)	15,204	25,113
Net amounts due to customers for contract work included in trade and other payables (note 22)	<u>(128,236)</u>	<u>(62,713)</u>
	<u>(113,032)</u>	<u>(37,600)</u>

20 SHORT-TERM INVESTMENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Market value of Hong Kong listed equity securities	<u>9,238</u>	<u>6,921</u>	<u>33</u>	<u>154</u>

21 CASH AND BANK BALANCES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Cash and bank balances	540,246	571,736
Restricted bank deposits included in non-current assets	(54,129)	(83,794)
	486,117	487,942

The Group's bank deposits of approximately HK\$54,129,000 (2001: HK\$83,794,000) are restricted for the purpose of long-term banking facilities granted to the Group (note 26).

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net amounts due to customers for contract work (note 19)	128,236	62,713	–	–
Trade payables	91,908	130,535	–	–
Retention payables	73,993	100,572	–	–
Accrued liabilities and other payables	46,378	55,618	5,699	5,263
Amounts due to fellow subsidiaries	7,848	574	–	–
	348,363	350,012	5,699	5,263

As at 31st December 2002, the ageing analysis of trade payables was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current – 90 days	54,955	106,556
91 days – 180 days	4,082	12,132
Over 180 days	32,871	11,847
	91,908	130,535

23 BANK LOANS-UNSECURED

As at 31st December 2002, bank loans of HK\$25,000,000 (2001: HK\$80,000,000) are guaranteed by COSCO (Hong Kong) Group Limited, an intermediate holding company of the Group.

24 SHARE CAPITAL

	2002		2001	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Shares of HK\$0.10 each	3,000,000,000	300,000	3,000,000,000	300,000
Issued and fully paid:				
Shares of HK\$0.10 each:				
At 1st January	1,394,389,291	139,439	1,381,959,291	138,196
Issue of shares upon the exercise of options	–	–	12,430,000	1,243
At 31st December	1,394,389,291	139,439	1,394,389,291	139,439

25 RESERVES**Group**

	Share premium HK\$'000	Capital reserve (note (d)) HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2002	2,356,553	56,683	(2,027)	(1,008,291)	1,402,918
Exchange differences	–	–	(16)	–	(16)
Transferred to capital reserve	–	3,337	–	(3,337)	–
Loss for the year (note (a))	–	–	–	(538,056)	(538,056)
At 31st December 2002	2,356,553	60,020	(2,043)	(1,549,684)	864,846
Company and subsidiaries	2,356,553	60,020	(2,043)	(1,540,097)	874,433
Associated companies	–	–	–	(7,009)	(7,009)
Jointly controlled entities	–	–	–	(2,578)	(2,578)
	2,356,553	60,020	(2,043)	(1,549,684)	864,846
At 1st January 2001	2,349,642	56,683	(1,663)	(840,193)	1,564,469
Exchange differences	–	–	(364)	–	(364)
Issue of shares upon the exercise of options	6,911	–	–	–	6,911
Loss for the year (note (a))	–	–	–	(168,098)	(168,098)
At 31st December 2001	2,356,553	56,683	(2,027)	(1,008,291)	1,402,918
Company and subsidiaries	2,356,553	56,683	(2,027)	(994,644)	1,416,565
Associated companies	–	–	–	(8,956)	(8,956)
Jointly controlled entities	–	–	–	(4,691)	(4,691)
	2,356,553	56,683	(2,027)	(1,008,291)	1,402,918

25 RESERVES (Cont'd)**Company**

	Share premium HK\$'000	Contributed surplus (note (b)) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2002	2,356,553	83,770	(1,095,293)	1,345,030
Loss for the year	–	–	(468,528)	(468,528)
At 31st December 2002	2,356,553	83,770	(1,563,821)	876,502
At 1st January 2001	2,349,642	83,770	(916,827)	1,516,585
Issue of shares upon the exercise of share options	6,911	–	–	6,911
Loss for the year	–	–	(178,466)	(178,466)
At 31st December 2001	2,356,553	83,770	(1,095,293)	1,345,030

- (a) Loss for the year of HK\$538,056,000 (2001: HK\$168,098,000) includes a net profit of HK\$4,060,000 (2001: net loss of HK\$2,552,000) attributable to associated companies and jointly controlled entities.
- (b) The contributed surplus of the Company arose in 1992 when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired.
- (c) Under the Companies Act of Bermuda, the Company's contributed surplus is currently not distributable. Accordingly, the Company had no reserves available for distribution at 31st December 2002 (2001: Nil).
- (d) Included in the capital reserve is an amount of HK\$3,337,000 (2001: nil) which represents the Group's share of the statutory reserves of certain PRC subsidiaries.

26 LONG-TERM BANK LOANS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans				
Secured	853,281	1,208,567	780,000	780,000
Unsecured	188,000	148,790	188,000	130,000
	1,041,281	1,357,357	968,000	910,000
Amount repayable within one year included in current liabilities	(90,000)	(320,731)	(90,000)	–
	951,281	1,036,626	878,000	910,000
The bank loans are repayable as follows:				
Within one year	90,000	320,731	90,000	50,000
In the second year	171,281	256,626	98,000	80,000
In the third to fifth year	780,000	780,000	780,000	780,000
	1,041,281	1,357,357	968,000	910,000

In addition to the pledge of certain of the Group's properties and deposits as securities to long-term bank loans, the Group's long-term bank loans of HK\$73,281,000 (2001: HK\$176,627,000) and HK\$968,000,000 (2001: HK\$1,161,940,000) are guaranteed by China Ocean Shipping (Group) Company, the ultimate holding company of the Company, and COSCO (Hong Kong) Group Limited, an intermediate holding company, respectively. Besides, bank loan as at 31st December 2001 of HK\$18,790,000 was guaranteed by a minority shareholder of a subsidiary.

27 DEFERRED TAXATION

The potential deferred tax (assets)/liabilities not provided for in the financial statements amount to:

	Group	
	2002 HK\$'000	2001 HK\$'000
Tax losses	(66,680)	(53,626)
Accelerated depreciation allowances	223	3,969
At 31st December	(66,457)	(49,657)

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'000	2001 HK\$'000
Operating loss	(507,837)	(106,964)
Impairment loss on a leasehold land and building	207,000	–
Impairment loss on other investment in a joint venture	140,798	–
Provision for diminution in value of investment securities	13,650	128,800
Provision for claims and foreseeable losses on certain construction contracts	87,729	–
Provision for completed properties held for sale	43,966	8,000
Deficit on revaluation of investment properties	45,900	45,000
Interest income	(5,636)	(12,014)
Depreciation of fixed assets, net of amount capitalised	26,995	28,439
Amortisation of cost of other investment in a joint venture	19,335	88,343
Amortisation of goodwill	1,017	–
Gain on disposal/write-off of fixed assets	(207)	(351)
Dividend income	(1,836)	(1,973)
Income from other investment in a joint venture	(19,730)	(106,636)
	<hr/>	<hr/>
Operating profit before working capital changes	51,144	70,644
Decrease in properties under development for sale	87,106	1,165,569
Decrease/(increase) in completed properties held for sales	2,204	(122,784)
Increase in construction contracts in progress	(10,388)	(67,150)
Decrease/(increase) in trade receivables, retention receivables, deposits, prepayments and other receivables	372,066	(239,743)
(Increase)/decrease in short-term investments	(2,317)	4,058
Decrease in trade payables, accrued liabilities and other payables	(87,639)	(38,713)
Decrease in amounts due from fellow subsidiaries	541	5,930
Increase in amounts due to fellow subsidiaries	7,274	476
	<hr/>	<hr/>
Net cash generated from operations	419,991	778,287

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Analysis of changes in financing during the year

	Share capital and premium HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2001	2,487,838	1,995,706	46,210	4,529,754
Net cash from/(used in) financing activities	8,154	(528,349)	–	(520,195)
Changes in exchange rates	–	–	44	44
Minority's share of profit of subsidiaries for the year	–	–	447	447
At 31st December, 2001	<u>2,495,992</u>	<u>1,467,357</u>	<u>46,701</u>	<u>4,010,050</u>
At 1st January 2002	2,495,992	1,467,357	46,701	4,010,050
Net cash used in financing activities	–	(361,076)	(4,338)	(365,414)
Acquisition of a subsidiary	–	–	12,985	12,985
Minority's share of loss of subsidiaries for the year	–	–	(7,345)	(7,345)
At 31st December 2002	<u>2,495,992</u>	<u>1,106,281</u>	<u>48,003</u>	<u>3,650,276</u>

(c) Acquisition of subsidiaries

	2002 HK\$'000
Net assets acquired	
Fixed assets	3,583
Trade and other receivables	1,502
Cash and bank balances	46,650
Trade and other payables	(13,177)
Taxation	(6,095)
Minority interests	(12,985)
	<u>19,478</u>
Goodwill	40,675
	<u>60,153</u>
Satisfied by	
Cash	<u>60,153</u>

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**(c) Acquisition of subsidiaries (Cont'd)**

Analysis of the net cash from the acquisition of subsidiaries:

	2002 HK\$'000
Cash consideration	60,153
Cash and bank balances acquired	(46,650)
	<hr/>
Net cash from the acquisition of subsidiaries	13,503
	<hr/>

The subsidiaries acquired during the year contributed HK\$ 3,162,000 to the Group's net operating cash flows and utilised HK\$ 470,000 for investing activities.

29 OPERATING LEASE COMMITMENTS

The total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	279	101	4,480	4,947
In the second to fifth years inclusive	7	–	–	4,561
	<hr/> 286 <hr/>	<hr/> 101 <hr/>	<hr/> 4,480 <hr/>	<hr/> 9,508 <hr/>

The Company entered into non-cancellable operating leases with a subsidiary of the Group, such lease commitments are eliminated upon consolidation.

30 CONTINGENCIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees for banking facilities granted to subsidiaries	–	–	–	1,129,000
Claims for liquidated damages and cost of rectification works in respect of a completed construction contract	42,500	–	–	–
Performance bonds in respect of performance and completion of construction contracts	10,271	49,734	–	–
Guarantee and counter-indemnity to bank guarantees in respect of due performance of management and remedial cost of a property undertaken by the Group	43,000	43,000	35,000	35,000

31 RELATED PARTY TRANSACTIONS

- (a) The following is a summary of the significant related party transactions carried out in the normal course of the Group's business during the year.

	Note	Group	
		2002 HK\$'000	2001 HK\$'000
Rental income received from			
An intermediate holding company	(i)	2,073	2,552
Fellow subsidiaries	(i)	30,687	39,977
Commission income for provision of agency services	(ii)	15,350	–

Notes :

- (i) Ten tenancy agreements were entered into between certain subsidiaries of the Company as landlords, and COSCO (Hong Kong) Group Limited or its subsidiaries as tenants, for the leasing of certain properties of the Group at COSCO Tower at average monthly rental of approximately HK\$33 (2001: HK\$40) per square feet.
- (ii) Certain subsidiaries of the Company act as the agent of China Ocean Shipping (Group) Company, the ultimate holding company, and its subsidiaries in respect of (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new ship-building projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above.

31 RELATED PARTY TRANSACTIONS (Cont'd)

- (b) On 1st July 2002, the Group completed the acquisition of a 60% equity interest of COSCO International Ship Trading Limited ("COSCO Ship Trading") from COSCO (H.K.) Industry & Trade Holdings Limited, a wholly owned subsidiary of COSCO (Hong Kong) Group Limited, an intermediate holding company. COSCO Ship Trading became a subsidiary of the Group thereafter.

32 PRINCIPAL SUBSIDIARIES

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in Hong Kong				
99 Prove Finance Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Capital Properties Limited #	Hong Kong	2 Ordinary shares of HK\$1 each	100	Provision of nominee services
Cash in Hand Inc	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment
Century Metro Development Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	100	Property development
COSCO International Infrastructure Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
COSCO International Land Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
COSCO International Ship Trading Company Limited, acquired on 1st July 2002	Hong Kong	500,000 Ordinary shares of HK\$1 each	60	Provision of agency services on ship trading business
COSCO International Trade Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
COSCO Project Management Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Gwee Brothers Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment

32 PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in Hong Kong (Cont'd)				
Malayan Corporations Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property investment
Market Smart Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Selwin Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	100	Building construction
Shun Shing Construction & Engineering Company, Limited	Hong Kong	2,742,000 Ordinary shares of HK\$100 each and 120,000 Non-voting deferred shares of HK\$100 each	100	Building construction, maintenance and civil engineering
Tian Lee Property Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Velu Exports Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Waily Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Investment holding
Wealth Nice Investment Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Property development
Wing Thye Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding
Year Of The Rat Corp.	British Virgin Islands	1 Ordinary share of US\$1	100	Property holding

32 PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in the British Virgin Islands				
Cash Rich Enterprises Limited	British Virgin Islands	10,000 Ordinary shares of US\$1 each	85.85	Investment holding
COSCO (B.V.I.) Holdings Limited #	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
COSCO International Construction Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	100	Investment holding
COSCO International Infrastructure (BVI) Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
COSCO International Land (B.V.I.) Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Graceful Nice Limited	British Virgin Islands	1 Ordinary holding share of US\$1	100	Investment holding
Modern Capital Investment Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Monoland Assets Limited	British Virgin Islands	2 Ordinary shares of US\$1 each	100	Investment holding
Raycle Match Development Ltd.	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Trinity Developments Limited	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Uppermost Corporation #	British Virgin Islands	1 Ordinary share of US\$1	100	Investment holding
Operated in the PRC				
New Central International Enterprises Co., Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	90	Investment holding
Shanghai COSCO Honour Property Development Limited	PRC, equity joint venture	RMB232,238,926	85	Property development

32 PRINCIPAL SUBSIDIARIES (Cont'd)

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of interest held	Principal activities
Operated in the PRC (Cont'd)				
Xiang Li Yuan (Shanghai) Property Management Company Limited	PRC, wholly foreign-owned enterprise	US\$500,000	100	Property management services
Wellbase Holdings Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	Property investment
COSCO Ship Beijing Company Limited, acquired on 1st July 2002	PRC, wholly foreign-owned enterprise	US\$500,000	60	Provision of agency services on ship trading business

Shares held directly by the Company

33 SUBSEQUENT EVENT

On 24th January 2003, the Group entered into the Share Transfer and Capital Injection Agreement and the Joint Venture Agreement for the acquisition of a 23.4% equity interest in COSCO Real Estate Development Co. Ltd ("CRED"), a 50% owned company of China Ocean Shipping (Group) Company ("COSCO"), the ultimate holding company, from COSCO for a cash consideration of RMB 191,750,000, and the participation in the capital injection by the Group for an aggregate amount of RMB 26,500,000. Upon completion of the transactions, the Group will hold 20% of the enlarged equity interest in CRED. On the same date, a Sale and Purchase Agreement was signed for the sale of the Group's entire 49% equity interest in Beijing Tian Lin Property Development Co. Ltd. ("Tian Lin"), a jointly controlled entity, to a subsidiary of CRED for a cash consideration of RMB 62,630,000 and for the repayment by Tian Lin of the outstanding shareholder's loan advanced by the Group of RMB226,760,000. The proposed acquisitions and disposals were approved in the Special General Meeting held on 6th March 2003. The transactions are conditional upon the performance of certain precedent conditions which are scheduled to be completed during the second half of the year 2003.

34 ULTIMATE HOLDING COMPANY

The directors regard China Ocean Shipping (Group) Company, a state-owned enterprise established in the PRC, as being the ultimate holding company.

35 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25th March 2003.