

Notes to Financial Statements ▶

31 DECEMBER 2002

1. CORPORATE INFORMATION

During the year, the Group was involved in property investment and management.

2. FUNDAMENTAL ACCOUNTING CONCEPT

These financial statements have been prepared on a going concern basis notwithstanding that the Group had net current liabilities at the balance sheet date of approximately HK\$29 million. The directors have made an assessment of the Group's ability to continue as a going concern. Taking into account, inter alia, the expected cash inflows from the property rentals, the jointly-controlled entity, new banking facilities, and proceeds from the subscription of shares subsequent to the balance sheet date as detailed in note 32 to the financial statements, the directors consider that the preparation of these financial statements on a going concern basis is appropriate.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently-issued and revised Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the consolidated financial statements is that the profit and loss account of an overseas jointly-controlled entity is now translated at the weighted average exchange rates for the year, whereas previously it was translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.



3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 24 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, and which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Goodwill** (continued)

On disposal of subsidiaries, jointly-controlled entities or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

Negative goodwill

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

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

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

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

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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

Subsidiaries

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

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

A joint venture company is treated as a jointly-controlled entity if the Company does not have unilateral control, but has joint control over the joint venture company.

The Group's share of post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of assets**

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

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

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

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

Fixed assets and depreciation

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

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

Leasehold land	1.6%
Buildings	2%
Leasehold improvements	25% – 33 ¹ / ₃ %
Furniture and fixtures	20% – 25%
Motor vehicles	30%
Office equipment	25%



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

For the purpose of calculating the depreciation on buildings, the building cost is deemed to be 50% of the total cost of land and buildings.

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

Investment properties

Investment properties are interests in land and/or buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than 20 years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Short term investments

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

Employee benefits

Retirement benefits scheme

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Employee benefits** (continued)*Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event that such a termination of their employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and/or its associated companies. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheets until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheets for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Operating leases

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



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of an overseas jointly-controlled entity are translated to Hong Kong dollars using the net investment method. The profit and loss account of the overseas jointly-controlled entity is translated to Hong Kong dollars at the weighted average exchange rates for the year, and its balance sheet is translated to Hong Kong dollars at the exchange rate at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Prior to the adoption of the revised SSAP 11 during the year, as explained in note 3 to the financial statements, the profit and loss account of overseas jointly-controlled entity was translated to Hong Kong dollars at the exchange rate at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

Deferred tax

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

Related parties

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

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

- (a) rental and management fee income, on a time proportion basis over the lease terms;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) profit on the trading of listed investments, on the transaction date;
- (d) dividend income, when the shareholders' right to receive payment has been established; and
- (e) profit on disposal of an investment property, when the legally binding sales contract is signed and exchanged and the transaction becomes unconditional.

5. SEGMENT INFORMATION

The Group has only one business segment, which is the property investment and management segment which provides property leasing and building management services and, therefore, no business segment information is presented.

No geographical segment information is presented as over 90% of the Group's segment revenue and assets are derived from operations carried out in Hong Kong. The jointly-controlled entity is not a reportable segment as defined by SSAP 26 "Segment reporting". Further details of the location and principal activities of the jointly-controlled entity are set out in note 16 to the financial statements.

6. TURNOVER

Turnover represents rental and management fee income but excludes intra-group transactions.

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Group	
	2002 HK\$'000	2001 HK\$'000
Costs incurred in the provision of rental and management services (<i>Note</i>)	2,854	2,925
Staff costs (including directors' remuneration - note 9):		
Salaries and allowances	7,196	6,482
Pension scheme contributions	151	216
Total staff costs	<u>7,347</u>	<u>6,698</u>
Depreciation	97	132
Rental expenses in respect of land and buildings under operating leases	543	598
Auditors' remuneration	400	400
Deficit on revaluation of investment properties	3,800	22,405
Unrealised holding loss on short term investments	28	193
Loss on deemed disposal of interest in an associate	-	77
Loss on disposal of a subsidiary	-	2,816
Provisions for doubtful debts	-	23,065
and crediting:		
Gross rental income	14,159	20,031
Less: Outgoings	<u>(653)</u>	<u>(455)</u>
Net rental income	<u>13,506</u>	<u>19,576</u>
Dividend income from listed investments	49	49
Interest income from bank deposits	237	458
Profit on disposal of listed investments	-	1,077
Profit on disposal of an investment property	<u>-</u>	<u>142</u>

Note: The amount included staff costs of HK\$1,902,000 (2001: HK\$1,975,000).

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8. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans repayable within five years	<u>3,251</u>	<u>5,627</u>

9. DIRECTORS' REMUNERATION

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

	2002 HK\$'000	2001 HK\$'000
Executive directors:		
Fees	–	–
Salaries, housing allowances, bonuses and benefits in kind	<u>2,365</u>	<u>1,466</u>
	<u>2,365</u>	<u>1,466</u>
Non-executive director:		
Fees	66	66
Independent non-executive directors:		
Fees	<u>120</u>	<u>165</u>
	<u>2,551</u>	<u>1,697</u>

9. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	9	8
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>10</u>	<u>9</u>

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

During the year, 47,988,470 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 24 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is included in the above directors' remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2001: one) directors, details of whose remuneration are set out in note 9 to the financial statements. Further details of the remuneration of the remaining three (2001: four) non-director, highest paid employees are set out below:

	2002	2001
	HK\$'000	HK\$'000
Salaries, other emoluments and benefits in kind	1,746	2,005
Pension scheme contributions	36	48
	<u>1,782</u>	<u>2,053</u>

The remuneration of the above non-director, highest paid employees for the year fell within the band of nil to HK\$1,000,000.

During the year, 2,000,000 share options were granted to one of the three non-director, highest paid employees, further details of which are set out in note 24 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is included in the above five highest paid employees remuneration disclosures.

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11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2002 HK\$'000	2001 HK\$'000
The Company and its subsidiaries:		
Hong Kong profits tax:		
Provision for the year	323	700
Overprovision in prior years	<u>(1,417)</u>	<u>(207)</u>
	(1,094)	493
Share of tax attributable to:		
Jointly-controlled entity	1,733	1,346
Associates	<u>401</u>	<u>695</u>
Tax charge for the year	<u>1,040</u>	<u>2,534</u>

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK\$1,648,000 (2001: HK\$34,480,000).

The Group's share of loss retained by the jointly-controlled entity for the year amounted to approximately HK\$4,287,000 (2001: profit of HK\$1,053,000).

The Group's share of profit retained by the associates for the year amounted to HK\$11,644,000 (2001: loss of HK\$28,573,000).

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders of HK\$2,380,000 (2001: loss of HK\$72,782,000) and 827,867,914 shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2002 and 2001 have not been disclosed, as the share options outstanding for the year ended 31 December 2002 (2001: Nil) had an anti-dilutive effect on the basic earnings per share.

14. FIXED ASSETS

Group

	Investment properties HK\$'000	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation:					
At beginning of year	240,300	3,143	101	3,523	247,067
Additions	–	–	–	3	3
Disposals	(500)	–	–	–	(500)
Deficit on revaluation	(3,800)	–	–	–	(3,800)
At 31 December 2002	<u>236,000</u>	<u>3,143</u>	<u>101</u>	<u>3,526</u>	<u>242,770</u>
Comprising:					
At cost	–	3,143	101	3,526	6,770
At 2002 valuation	<u>236,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>236,000</u>
	<u>236,000</u>	<u>3,143</u>	<u>101</u>	<u>3,526</u>	<u>242,770</u>
Accumulated depreciation:					
At beginning of year	–	439	101	3,390	3,930
Provided during the year	–	42	–	55	97
At 31 December 2002	<u>–</u>	<u>481</u>	<u>101</u>	<u>3,445</u>	<u>4,027</u>
Net book value:					
At 31 December 2002	<u>236,000</u>	<u>2,662</u>	<u>–</u>	<u>81</u>	<u>238,743</u>
At 31 December 2001	<u>240,300</u>	<u>2,704</u>	<u>–</u>	<u>133</u>	<u>243,137</u>

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14. FIXED ASSETS (continued)

The Group's land and buildings held at cost at 31 December 2002 are situated in Hong Kong and are held under long term leases.

The Group's investment properties are situated in Hong Kong and were revalued at 31 December 2002 by AA Property Services Limited, an independent professionally qualified valuer, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 28 to the financial statements.

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

	HK\$'000
Long term leases	87,650
Medium term leases	<u>148,350</u>
	<u><u>236,000</u></u>

At the balance sheet date, all of the Group's investment properties and land and buildings with an aggregate carrying value of approximately HK\$238,662,000 (2001: HK\$225,504,000) were pledged to banks to secure the bank loans as set out in note 21 to the financial statements.

Further details of the Group's major properties are set out on pages 60 to 61 of the annual report.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	231,154	231,154
Due from subsidiaries	403,576	407,177
Due to subsidiaries	(26,154)	(27,794)
	<u>608,576</u>	<u><u>610,537</u></u>

15. INTERESTS IN SUBSIDIARIES (continued)

The balances with the subsidiaries are unsecured, not repayable within one year and interest-free, except for the amount due from subsidiaries of HK\$12,743,000 (2001: HK\$13,558,000) which is repayable on demand and bears interest at 3% per annum.

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name of company	Place of incorporation/ operations	Nominal value of issued share capital*	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Dunley Developments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Ecko Limited	Hong Kong	HK\$2	100	100	Property management
Eldex Investment Company Limited	Hong Kong	HK\$541,000 (ordinary) HK\$1,459,000 (non-voting deferred)	100	100	Property investment
Grand Award Limited	British Virgin Islands	US\$1	100	100	Investment holding
Grand Park Investment Limited	Hong Kong	HK\$2	100	100	Property investment
Grand Phoenix Limited	British Virgin Islands	US\$1	100	100	Investment holding
Jeckman Holdings Limited	British Virgin Islands	US\$16	100	100	Investment holding
Linksky Limited	Hong Kong	HK\$2	100	100	Property holding

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15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operations	Nominal value of issued share capital*	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Long Cosmos Investment Limited	Hong Kong	HK\$2	100	100	Provision of management services
Lyre Terrace Management Limited	Hong Kong	HK\$1,000,000	100	100	Investment holding and property investment
On Hing Investment Company, Limited	Hong Kong	HK\$1,000 (ordinary) HK\$2,000,000 (non-voting deferred)	100	100	Property investment
SCG Financial Investment Limited	British Virgin Islands	US\$1,000	100	100	Investment holding
SCG Investment (B.V.I.) Limited**	British Virgin Islands	HK\$100,000	100	100	Investment holding
SCG Leasing Corporation Limited	Hong Kong	HK\$2	100	100	Property investment
Strenbeeck Limited	British Virgin Islands/ Hong Kong	HK\$147,000,008	100	100	Property investment



15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operations	Nominal value of issued share capital*	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Tin Fung Investment Company, Limited	Hong Kong	HK\$975,000 (ordinary) HK\$210,000 (non-voting deferred)	100	100	Property investment
Upper Nice Assets Ltd.	British Virgin Islands	US\$1	100	100	Investment holding

* All issued share capital is ordinary unless otherwise stated.

** Except for SCG Investment (B.V.I.) Limited, all of the above subsidiaries are indirectly held by the Company.

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

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted investment: Cost plus share of post-acquisition profit of a jointly-controlled entity	<u>230,000</u>	<u>236,871</u>

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16. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

Particulars of the jointly-controlled entity at the balance sheet date are as follows:

Name of entity	Business structure	Place of incorporation/ operations	Percentage of			Principal activities
			Ownership interest	Profit/loss sharing	Voting power	
Beijing Dongzhimen International Apartment Co., Ltd. ("Beijing Dongzhimen")	Corporate	People's Republic of China ("PRC")	44 *	44	43**	Property holding and provision of residential serviced apartments

* Held through Grand Award Limited, a subsidiary.

** The Group has 3 out of 7 votes on the board of directors of Beijing Dongzhimen.

Beijing Dongzhimen is a sino-foreign equity joint venture which was established in the PRC on 18 December 1986 with a tenure of 14 years and 8 months to 17 August 2001 (the "initial JV term"). The extension of the initial JV term for a further period of 15 years from the date of expiry of the initial JV term to 17 August 2016 has been approved by the relevant authorities.

Beijing Dongzhimen holds the land use rights for the land on which the East Lake Villas are presently located until the expiry of the initial JV term. At the balance sheet date, Beijing Dongzhimen was in the process of applying for an extension of 40 years for the use of the land following the expiry of the initial JV term.

Shougang Holding (Hong Kong) Limited ("Shougang HK"), the Company's immediate holding company and a fellow subsidiary of one of the original joint venture partners, has provided an irrevocable undertaking to the Group to the effect that, should the extension of 40 years not be approved by the Beijing Administration for Land and Property, the Group will have the right to require Shougang HK to acquire from the Group the entire issued share capital of Grand Award Limited at an amount equal to the consideration paid by the Group for the acquisition of Beijing Dongzhimen, together with any further capital or loan which Grand Award Limited may have contributed or advanced to Beijing Dongzhimen, plus interest thereon calculated at market rates (the "Put Option"). In connection with Shougang HK's grant of the Put Option, the Group paid Shougang HK a sum of HK\$100 as consideration.

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

A summary of the results and the net tangible assets as at the balance sheet date of Beijing Dongzhimen is set out below:

(a) Results

	2002 HK\$'000	2001 HK\$'000
Turnover	<u>99,166</u>	<u>81,186</u>
Profit/(loss) before tax	(5,670)	5,453
Tax	<u>(3,939)</u>	<u>(3,060)</u>
Profit/(loss) after tax	<u>(9,609)</u>	<u>2,393</u>

(b) Net tangible assets

	2002 HK\$'000	2001 HK\$'000
Fixed assets	667,876	635,626
Construction in progress	12,687	12,583
Long term investment	–	603
Other deferred expenses	–	942
Current assets	39,340	73,728
Current liabilities	(133,032)	(168,275)
Non-current liabilities	<u>(65,938)</u>	<u>(18,838)</u>
	<u>520,933</u>	<u>536,369</u>

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17. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	242,941	231,296
Loan to an associate	27,900	27,900
Due from an associate	3,589	3,589
	274,430	262,785
Less: Provisions for doubtful debts	(31,489)	(31,489)
	<u>242,941</u>	<u>231,296</u>
Associates include:		
Share of net assets of a Hong Kong listed company	<u>242,941</u>	<u>231,296</u>
Market value of listed shares	<u>196,974</u>	<u>92,912</u>

The loan of HK\$27,900,000 (2001: HK\$27,900,000) to an associate is unsecured, bears interest at 15% per annum and has no fixed terms of repayment. The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment. Both of these amounts have been fully provided against at the balance sheet date.

17. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates at the balance sheet date are as follows:

Name of company	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Shougang Concord Technology Holdings Limited*	Corporate	Hong Kong	46.3**	46.3**	Investment holding
Top Pearl International Development Limited	Corporate	British Virgin Islands/ PRC	50**	50**	Property development

* Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

** Held indirectly through subsidiaries.

The principal activities of the material associate of the Group, Shougang Concord Technology Holdings Limited and its subsidiaries, at the balance sheet date were the manufacture and sale of telephone cords and accessories, power cords, adaptors and electronic products, printed circuit boards, high precision metal parts and the provision of freight forwarding and delivery services.

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17. INTERESTS IN ASSOCIATES (continued)

A summary of the results and the net tangible assets as at the balance sheet date of Shougang Concord Technology Holdings Limited is set out below:

(a) Results

	2002 HK\$'000	2001 HK\$'000
Turnover	426,269	516,310
Loss from operating activities	(2,606)	(42,892)
Finance costs	(4,011)	(4,230)
Gain on disposal of interest in a jointly-controlled entity	6,164	–
Write-back of impairment provision for a long term investment	11,500	–
Loss on disposal of a subsidiary	–	(19,620)
Provision for impairment in value of interest in a jointly-controlled entity	–	(2,000)
Share of profits and losses of jointly-controlled entities	16,137	10,301
Profit/(loss) before tax	27,184	(58,441)
Tax	(866)	(1,502)
Profit/(loss) before minority interests	26,318	(59,943)
Minority interests	(1,187)	(1,742)
Net profit/(loss) attributable to shareholders	25,131	(61,685)

17. INTERESTS IN ASSOCIATES (continued)**(b) Net tangible assets**

	2002 HK\$'000	2001 HK\$'000
Fixed assets	162,905	178,557
Interests in jointly-controlled entities	116,889	144,436
Other non-current assets	28,501	17,226
Current assets	559,490	274,926
Current liabilities	(133,332)	(105,613)
Other non-current liabilities	(200,233)	(233)
Minority interests	(9,543)	(9,756)
	<u>524,677</u>	<u>499,543</u>

18. SHORT TERM INVESTMENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Listed equity investments in Hong Kong, at market value	<u>830</u>	<u>858</u>

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Rental receivable*	110	542
Prepayments, deposits and other debtors	<u>1,744</u>	<u>1,875</u>
	<u>1,854</u>	<u>2,417</u>

* Invoices are due when issued.

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20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	587	79	247	16
Time deposits	5,883	23,812	5,883	23,812
	<u>6,470</u>	<u>23,891</u>	<u>6,130</u>	<u>23,828</u>

21. INTEREST-BEARING BANK BORROWINGS

	Group and Company	
	2002 HK\$'000	2001 HK\$'000
Bank loans repayable:		
Within one year	30,600	30,000
In the second year	35,600	30,000
In the third to fifth years, inclusive	15,800	40,000
	<u>82,000</u>	<u>100,000</u>
Portion classified as current liabilities	<u>(30,600)</u>	<u>(30,000)</u>
Long term portion	<u>51,400</u>	<u>70,000</u>

All of the Group's investment properties and land and buildings with an aggregate carrying value of approximately HK\$238,662,000 (2001: HK\$225,504,000) were pledged to banks to secure the above bank borrowings except a HK\$2 million bank loan.

22. DEFERRED TAX

At the balance sheet date, there were no significant potential deferred tax liabilities for which provision has not been made.

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

The principal component of the Group's deferred tax asset not recognised is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Tax losses carried forward	<u>7,346</u>	<u>6,774</u>

23. SHARE CAPITAL

Shares

	Company	
	2002 HK\$'000	2001 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:		
827,867,914 ordinary shares of HK\$0.01 each	<u>8,279</u>	<u>8,279</u>

Subsequent to the balance sheet date, on 5 March 2003, 30,000,000 shares of HK\$0.01 each were issued for cash at a subscription price of HK\$0.48 per share. Details are included in note 32 to the financial statements.

Share options

Details of the Company's share options are included in note 24 to the financial statements.

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24. SHARE OPTIONS

SSAP 34 was adopted during the year, as explained in note 3 and under the heading “Employee benefits” in note 4 to the financial statements. As a result, these detailed disclosures relating to the Company’s share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of Directors, as their disclosure is also a requirement of the Listing Rules.

On 7 June 2002, the share option scheme (the “Old Scheme”) of the Company adopted on 8 September 1993 ceased to operate and a new share option scheme (the “New Scheme”) has been adopted to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. No share options under the Old Scheme were outstanding as at 1 January 2002 and no share option was granted by virtue of the Old Scheme for the period from 1 January 2002 and up to 7 June 2002, being the date of termination of the Old Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations and/or its associated companies. Eligible participants of the New Scheme included directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies and any suppliers, customers, consultants, advisers, agents, partners or business associates. The New Scheme became effective on 7 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of the passing of such resolution. At 31 December 2002, the number of shares issuable under share options granted under the New Scheme was 53,811,414, which represented approximately 6.5% of the Company’s shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.



24. SHARE OPTIONS (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the New Scheme at any time within 10 years from the date of the options have been granted.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's ordinary shares.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

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24. SHARE OPTIONS (continued)

The details of movements in the Company's share options under the New Scheme during the year are set out below:

Grantee	Number of share options
Balance in issue at 1 January 2002	—
Granted during the year:	
Directors	
Wang Qinghai	8,278,679
Cao Zhong	8,278,679
Chen Zhouping	8,278,679
Luo Zhenyu	8,278,679
Xu Xianghua	8,278,679
Leung Shun Sang, Tony	5,795,075
Choy Hok Man, Constance	400,000
Tam King Ching, Kenny	400,000
	<u>47,988,470</u>
Other employees in aggregate	4,000,000
A consultant	<u>1,822,944</u>
Balance in issue at 31 December 2002	<u><u>53,811,414</u></u>

No share options was exercised or lapsed or cancelled under the New Scheme during the year.

All 53,811,414 share options were granted on 23 August 2002 and are exercisable at any time from 23 August 2002 to 6 June 2012 at the exercise price of HK\$0.73 per share, subject to adjustment.

24. SHARE OPTIONS (continued)

Price of the Company's shares at the grant date of options was HK\$0.73 per ordinary share.

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 53,811,414 additional ordinary shares of the Company and additional share capital of approximately HK\$538,000 and share premium of approximately HK\$38,744,000 (before issue expenses).

Subsequent to the balance sheet date, on 6 March 2003, the Company granted certain participants under the New Scheme totaling 28,968,018 share options to subscribe for shares of HK\$0.01 each in the capital of the Company exercisable at any time from 6 March 2003 to 5 March 2013 at an exercise price of HK\$0.76 per share, subject to adjustment.

25. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The revised SSAP 11 was adopted during the year, as explained in note 3 and under the heading "Foreign currencies" in note 4 to the financial statements. As a result, the profit and loss account of the overseas jointly-controlled entity is now translated to Hong Kong dollars at the weighted average exchange rates for the year, rather than at the exchange rate at the balance sheet date, as previously the case. This change in accounting policy has had no significant effect on these financial statements.

The Group's contributed surplus represented the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1991 over the nominal value of the Company's shares issued in exchange therefor.

At the balance sheet date, the amount of negative goodwill remaining in capital reserve arising from the acquisition of an associate was HK\$85,217,000. The amount of negative goodwill was originally stated at its cost of HK\$85,677,000, less loss on deemed disposal of interest in the associate of HK\$460,000 in 2001.

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25. RESERVES (continued)**(b) Company**

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001	192,744	362,731	17,596	573,071
Loss for the year	—	—	(34,480)	(34,480)
At 31 December 2001 and 1 January 2002	192,744	362,731	(16,884)	538,591
Loss for the year	—	—	(1,648)	(1,648)
At 31 December 2002	<u>192,744</u>	<u>362,731</u>	<u>(18,532)</u>	<u>536,943</u>

Note: The Company's contributed surplus was derived from the reorganisation in 1991 and represented the excess of the fair value of the shares of the subsidiaries acquired over the nominal values of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

26. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT**Disposal of a subsidiary**

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	—	16,017
Realisation of revaluation reserve upon disposal	—	(1,992)
	—	14,025
Loss on disposal of a subsidiary	—	(2,816)
	<u>—</u>	<u>11,209</u>
Satisfied by:		
Cash	—	11,209

27. CAPITAL COMMITMENTS

The Group had the following commitments at the balance sheet date:

	Group	
	2002 HK\$'000	2001 HK\$'000
The Group's share of the jointly-controlled entity's capital commitments:		
Contracted, but not provided for	24,580	894
Authorised, but not contracted for	—	64,237
	<u>24,580</u>	<u>65,131</u>

The Company had no significant commitments as at 31 December 2002 (2001: Nil).

28. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 3 years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	9,156	7,883
In the second to fifth years, inclusive	4,158	1,475
	<u>13,314</u>	<u>9,358</u>

29. CONTINGENT LIABILITIES

The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$746,000 as at 31 December 2002, as further explained in note 4 to the financial statements. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group. Except for the above, the Group and the Company had no significant contingent liabilities as at 31 December 2002.

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30. RELATED PARTY TRANSACTIONS

In addition to those set out in notes 16 and 17 to the financial statements and the dividend income received from Beijing Dongzhimen of HK\$2,605,000 during the year (2001: Nil), the Group had the following material transactions with related parties during the year:

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Management and service fees charged by Shougang Concord International Enterprises Company Limited ("Shougang International")	(a)	<u>498</u>	<u>960</u>
Consultancy fees charged by Shougang International	(b)	<u>400</u>	<u>–</u>
Rental expenses charged by Wonderfine Development Limited	(c)	<u>543</u>	<u>598</u>
Consultancy expenses charged by Shougang HK	(d)	<u>960</u>	<u>960</u>

Notes:

- (a) Pursuant to a management service agreement entered into between the Group and Shougang International, a monthly management fee of HK\$83,000 was charged in connection with the agreement for the six month period ended 30 June 2002.
- (b) Pursuant to a consultancy agreement entered into between the Group and Shougang International, a monthly consultancy fee of HK\$80,000 has been charged since 1 August 2002.
- (c) The rental expenses were charged at a monthly charge of HK\$45,225 for the year ended 31 December 2002 in accordance with the agreement between the Group and Wonderfine Development Limited, a subsidiary of Shougang HK.
- (d) The consultancy expenses were charged at HK\$960,000 per annum in accordance with the agreement between the Group and Shougang HK.

31. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the immediate holding company is Shougang HK, a company incorporated in Hong Kong with limited liability, The ultimate holding company is Shougang Corporation, a state-owned enterprise in Mainland China.

During the year, the former immediate holding company, Shougang International, disposed of its entire interest in the Company to a wholly-owned subsidiary of Shougang HK and a wholly-owned subsidiary of Cheung Kong (Holdings) Limited.

32. POST BALANCE SHEET EVENTS

On 19 February 2003, the immediate holding company, Shougang HK, entered into an agreement with the placing agent, CITIC Capital Markets Limited ("CITIC"), to place on a fully underwritten basis 30,000,000 existing ordinary shares of the Company at a price of HK\$0.48 per share (the "Placing"). The shares were placed by CITIC to an independent third party on 21 February 2003.

As the same series of transactions, on 19 February 2003, the Company entered into a conditional agreement with Shougang HK for the subscription of 30,000,000 new ordinary shares by Shougang HK at the same price of HK\$0.48 per share (the "Subscription"). On 5 March 2003, the conditions as specified in the Subscription agreement had been fulfilled and, accordingly, the said transaction was completed.

The Company intends to use the net proceeds of the Subscription of approximately HK\$14 million for the Company's general working capital purposes.

The shareholding of Shougang HK in the issued share capital of the Company was reduced from approximately 52% to approximately 48.38% upon completion of the Placing but before completion of the Subscription and was increased from approximately 48.38% to approximately 50.18% upon completion of the Placing and the Subscription.

33. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of revised SSAP 1 and SSAP 15 during the current year, the presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to confirm with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2003.