

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 1. GENERAL AND GROUP REORGANISATION

The Company was incorporated in Bermuda as an exempted company with limited liability under Companies Act 1981 of Bermuda (as amended). Its ultimate holding company is Future Opportunity Limited, incorporated in the British Virgin Islands.

Pursuant to the group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred as to the "Group") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 15th May, 2002. Details of the Group Reorganisation are set out in Appendix VI of the prospectus dated 22nd May, 2002 issued by the Company.

The Group Reorganisation is accounted for using merger accounting in accordance with the Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants. The consolidated financial statements for the year ended 31st December, 2002, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

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

In the current year, the Group has adopted for the first time the following new and revised Statements of Standard Accounting Practices ("SSAPs").

SSAP No. 1 (Revised)	Presentation of financial statements
SSAP No. 11 (Revised)	Foreign currency translation
SSAP No. 15 (Revised)	Cash flow statements
SSAP No. 34	Employee benefits

The adoption of these new or revised SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement as well as additional disclosures. These changes have not had any material effect on the results for the current or prior period. Accordingly, no prior period adjustment has been required.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### **Basis of consolidation**

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

#### **Goodwill**

For the year ended 31st December, 2001, the Group has adopted SSAP No. 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary or joint venture, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary or joint venture.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised on a straight line basis following an assessment of its useful economic life. Current estimate of goodwill's useful life does not exceed twenty years. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

#### **Investment properties**

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Investment properties** *(Continued)*

Investment properties are stated at their open market value based on professional valuation at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement.

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

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

#### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### **Property, plant and equipment**

Property, plant and equipment, other than leasehold land and buildings, are stated at cost less depreciation and amortisation and any identified impairment loss.

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property, plant and equipment (Continued)

Depreciation and amortisation are provided to write off the cost or valuation of property, plant and equipment over their estimated useful life and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining terms of the leasehold land
Buildings	Over the remaining terms of the leasehold land or 50 years, whichever is shorter
Furniture, fixtures and equipment	20%
Plant and machinery	10%
Motor vehicles	20%

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

#### Jointly controlled operation

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control. Where the Group undertakes its activities under joint venture arrangement directly constituted as jointly controlled operation, the assets and liabilities arising from the jointly controlled operation is recognised in the balance sheet of the Group on an accrual basis and classified according to the nature of the item. The Group's share of the income from the jointly controlled operation together with the expenses incurred are included in the income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

#### Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of the land together with direct costs attributable to the completion of the properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### **Impairment**

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

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

#### **Turnover**

Turnover represents the amount received and receivable on sales of land and sales of developed properties, net of sales tax.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Revenue recognition**

Sale of land is recognised when the title has passed or when the sale contracts signed become unconditional, whichever is earlier.

Sale of developed properties is recognised upon execution of the sale agreements.

When a development property is sold in advance of completion, income is recognised only when the property is completed and has passed the inspection process. Deposits received from the purchasers prior to this stage are recorded as customers' deposits and included in current liabilities.

Rental income is recognised on a straight line basis over the term of relevant lease.

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

#### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

#### **Taxation**

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

Business tax is recognised as an expense in the period in which it is incurred.

Land appreciation tax is recognised as an expense to the extent that it is probable that the Group has the obligations to pay the tax to the tax authorities in the People's Republic of China excluding Hong Kong and Macau (the "PRC").

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

#### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

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

#### **Retirement benefits cost**

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 4. SEGMENT INFORMATION

#### Business Segments

The Group's principal activities are sales of land and sales of developed properties. These two business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

	<b>Sales of land HK\$'000</b>	<b>Sales of developed properties HK\$'000</b>	<b>Total HK\$'000</b>
<b>For the year ended 31st December, 2002</b>			
Turnover	<u>31,253</u>	<u>106,357</u>	<u>137,610</u>
Result			
Segment result	<u>19,677</u>	<u>40,804</u>	<u>60,481</u>
Other operating income			<u>8,337</u>
Unallocated corporate expenses			<u>(16,511)</u>
Profit from operations			<u>52,307</u>
Finance costs			<u>(3,317)</u>
Profit before taxation			<u>48,990</u>
Taxation			<u>(14,435)</u>
Profit before minority interests			<u>34,555</u>
Minority interests			<u>(7,012)</u>
Profit attributable to shareholders			<u>27,543</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 4. SEGMENT INFORMATION (Continued)

#### Business Segments (Continued)

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
<b>As at 31st December, 2002</b>			
Balance sheet			
Assets			
Segment assets	<u>119,983</u>	<u>296,811</u>	416,794
Unallocated corporate assets			<u>135,929</u>
Total assets			<u>552,723</u>
Liabilities			
Segment liabilities	<u>10,186</u>	<u>199,700</u>	209,886
Unallocated corporate liabilities			<u>84,629</u>
Total liabilities			<u>294,515</u>
<b>Other information</b>			
Additions of property, plant and equipment			851
Depreciation and amortisation of property, plant and equipment			<u>491</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 4. SEGMENT INFORMATION (Continued)

#### Business Segments (Continued)

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
For the year ended 31st December, 2001			
Turnover	1,064	255,236	256,300
Result			
Segment result	279	91,478	91,757
Gain on disposal of investment in a property development project			8,813
Other operating income			3,038
Unallocated corporate expenses			(15,448)
Profit from operations			88,160
Finance costs			(4,349)
Profit before taxation			83,811
Taxation			(24,540)
Profit before minority interests			59,271
Minority interests			(18,079)
Profit attributable to shareholders			41,192

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 4. SEGMENT INFORMATION (Continued)

#### Business Segments (Continued)

	Sales of land HK\$'000	Sales of developed properties HK\$'000	Total HK\$'000
As at 31st December, 2001			
Balance sheet			
Assets			
Segment assets	11,005	304,732	315,737
Unallocated corporate assets			137,816
Total assets			453,553
Liabilities			
Segment liabilities	17,965	148,030	165,995
Unallocated corporate liabilities			172,568
Total liabilities			338,563
<b>Other information</b>			
Additions of property, plant and equipment			236
Depreciation and amortisation of property, plant and equipment			637

#### Geographical Segments

All of the Group's turnover for both years were made in the PRC.

At the balance sheet date, over 90% (2001: over 90%) of the Group's segment assets were located in the PRC.

During the year, over 90% (2001: over 90%) of the Group's additions to property, plant and equipment took place in the PRC.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 5. PROFIT FROM OPERATIONS

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	<b>1,000</b>	425
Depreciation and amortisation	<b>491</b>	637
Directors' remuneration other than fees ( <i>note 6</i> )	<b>1,106</b>	2,016
Other staff's retirement benefit scheme contributions	<b>380</b>	210
Other staff costs	<b>4,061</b>	4,444
	<b>5,547</b>	6,670
Loss on disposal of property, plant and equipment	<b>122</b>	—
Operating lease rentals in respect of		
— land and buildings	<b>795</b>	881
— office equipment	<b>2</b>	—
and after crediting:		
Gain on disposal of listed securities in the PRC	<b>—</b>	381
Interest income	<b>693</b>	445
Gross rental income	<b>1,237</b>	845
Less: Outgoings	<b>(27)</b>	(44)
Net rental income from properties	<b>1,210</b>	801

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 6. DIRECTORS' AND EMPLOYEES' REMUNERATION

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Fees for		
– executive directors	<b>1,750</b>	–
– independent non-executive directors	<b>–</b>	–
	<b>1,750</b>	–
Other emoluments for independent non-executive directors	<b>–</b>	–
Other emoluments for executive directors		
– basic salaries and allowance	<b>1,088</b>	2,016
– retirement benefit scheme contributions	<b>18</b>	–
	<b>1,106</b>	2,016
Total directors' remuneration	<b>2,856</b>	2,016

The remuneration of the directors falls within the following band:

	<b>2002</b> <b>Number</b>	2001 Number
Nil – HK\$1,000,000	<b>8</b>	8

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 6. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

#### Employees' remuneration:

The five highest paid individuals of the Group included four (2001: four) directors, details of whose remuneration are set out above. The remuneration of the remaining individual is as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Salaries and other benefits	<b>600</b>	600
Retirement benefit scheme contributions	<b>—</b>	—
	<b>600</b>	600

The remuneration of the five highest paid individuals other than directors for both years falls within the following band:

	<b>2002</b> <b>Number</b>	2001 Number
Nil — HK\$1,000,000	<b>1</b>	1

No remuneration has ever been paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have ever waived any emoluments.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 7. FINANCE COSTS

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	<b>(2,061)</b>	(1,895)
Amounts due to minority shareholders	<b>(270)</b>	(515)
Loans from minority shareholders	<b>(3,032)</b>	(2,476)
Other borrowings wholly repayable within five years	<b>(390)</b>	(390)
Reimbursement of interest paid by ultimate holding company on behalf of a subsidiary	<b>—</b>	(4,211)
	<b>(5,753)</b>	(9,487)
Less: Amount capitalised in properties under development	<b>2,436</b>	5,138
	<b>(3,317)</b>	(4,349)

### 8. TAXATION

The charge represents the PRC enterprise income tax calculated at 33% (2001: 33%) on the estimated assessable profit for the year.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from or derived in Hong Kong for both years.

No provision for deferred taxation has been made as the amount involved is insignificant.

### 9. DIVIDEND

The final dividend proposed of HK3.0 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

During the year ended 31st December, 2001, a subsidiary declared and paid an interim dividend of HK\$20,000,000 to its then shareholders prior to the Group Reorganisation.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$27,543,000 (2001: HK\$41,192,000) and on the weighted average number of 259,107,397 (2001: 210,000,000) shares in issue on the assumption that the Group Reorganisation had been effective on 1st January, 2001.

No diluted earnings per share has been presented as the Company did not have any dilutive potential ordinary shares outstanding in either year.

### 11. INVESTMENT PROPERTIES

	<b>THE GROUP</b>
	<i>HK\$'000</i>
Valuation at 1st January, 2001, 31st December, 2001 and 1st January, 2002	13,458
Surplus arising on revaluation	<u>127</u>
Valuation at 31st December, 2002	<u>13,585</u>

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

	<b>2002</b>	2001
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Under long leases	<b>2,170</b>	2,150
Under medium term leases	<b>11,415</b>	11,308
	<u><b>13,585</b></u>	<u>13,458</u>

The Group's investment properties are situated in the PRC and are not rented out under operating leases. The investment properties were valued on an open market value at 31st December, 2002 by Chesterton Petty Limited, a firm of international property consultants. The revaluation surplus of approximately HK\$127,000 has been credited to the investment property revaluation reserve.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

## 12. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP				THE COMPANY	
	Leasehold land and buildings HK\$'000	Furnitures, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Furnitures, fixtures and equipment HK\$'000
COST OR VALUATION						
At 1st January, 2001	8,878	2,107	278	2,593	13,856	–
Additions	616	235	–	–	851	50
Disposals	–	(665)	–	–	(665)	–
Revaluation	145	–	–	–	145	–
At 31st December, 2002	9,639	1,677	278	2,593	14,187	50
Comprising:						
– at cost	–	1,677	278	2,593	4,548	50
– at valuation	9,639	–	–	–	9,639	–
	9,639	1,677	278	2,593	14,187	50
DEPRECIATION AND AMORTISATION						
At 1st January, 2001	1,404	1,423	53	2,253	5,133	–
Provided for the year	183	188	13	107	491	4
Eliminated on disposals	–	(543)	–	–	(543)	–
Eliminated on revaluation	(1,587)	–	–	–	(1,587)	–
At 31st December, 2002	–	1,068	66	2,360	3,494	4
NET BOOK VALUES						
At 31st December, 2002	9,639	609	212	233	10,693	46
At 31st December, 2001	7,474	684	225	340	8,723	–

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's leasehold land and buildings situated in the PRC are held under the following lease terms:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Under long leases	<b>9,380</b>	7,197
Under medium term leases	<b>259</b>	277
	<b>9,639</b>	7,474

The Group's leasehold land and buildings are situated in PRC and were valued on an open market existing use basis at 31st December, 2002 by Chesterton Petty Limited, a firm of international property consultants.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK\$7,907,000 (2001: HK\$7,474,000).

### 13. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>
	<i>HK\$'000</i>
Unlisted shares, at cost	128,074
Amounts due from subsidiaries	56,439
	<u>184,513</u>

The carrying value of the Company's investment in subsidiaries is estimated by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to the Group Reorganisation.

The amounts due from subsidiaries are unsecured, bear interest at prevailing market rates and do not have fixed repayment terms.

Details of the subsidiaries as at 31st December, 2002 are set out in note 35.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 14. PROPERTIES UNDER DEVELOPMENT

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
The properties under development are due for completion:		
Within one year	<b>18,954</b>	52,587
More than one year	<b>99,409</b>	126,531
	<b>118,363</b>	179,118

The properties under development situated in the PRC are held under the following lease terms:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Under long leases	<b>23,582</b>	45,124
Under medium term leases	<b>94,781</b>	133,994
	<b>118,363</b>	179,118

As at the balance sheet date, the properties under development included interest capitalised of approximately HK\$492,000 (2001: HK\$5,138,000).

### 15. AMOUNTS DUE TO SUBSIDIARIES

#### THE COMPANY

The amounts are unsecured, interest free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 16. PROPERTY SALE RECEIVABLE

#### THE GROUP

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
An aged analysis of the property sale receivable is as follows:		
Within three months	<b>60,801</b>	11,315
Four months to one year	<b>4,176</b>	12,368
Between one to two years	<b>3,308</b>	8,679
Over two years	<b>386</b>	801
	<b>68,671</b>	33,163

Under the Group's current credit policy on sales of developed properties, individual customer has to fully settle the purchase consideration before the Group transfers the title of the property to the customers.

For sales of land, individual customer has to substantially settle the purchase consideration before the Group transfers the title of the land to the customers.

### 17. CREDITORS AND ACCRUED CHARGES

#### THE GROUP

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
An aged analysis of the trade creditors, included in the creditors and accrued charges, is as follows:		
Within three months	<b>8,790</b>	335
Four months to one year	<b>33,348</b>	2,873
Over one year	<b>13,136</b>	13,203
	<b>55,274</b>	16,411

At the balance sheet date, included in creditors and accrued charges is a loan due to a third party of HK\$3,900,000 (2001: HK\$3,900,000). The loan is unsecured, bears interest at 10% per annum and repayable on demand.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31st December, 2002

**18. AMOUNTS DUE TO AN INTERMEDIATE HOLDING COMPANY/DUE TO RELATED COMPANIES**

The amounts are unsecured, interest free and have no fixed repayment terms.

**19. AMOUNTS DUE TO A DIRECTOR/ULTIMATE HOLDING COMPANY**

The amounts were unsecured, interest free and fully capitalised as a result of the Group Reorganisation.

**20. AMOUNTS DUE TO MINORITY SHAREHOLDERS**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interest bearing advances	<b>3,730</b>	4,761
Non-interest bearing advances	<b>2,077</b>	5,816
	<b>5,807</b>	10,577

The amounts are unsecured and have no fixed terms of repayment. The interest paid was charged at interest rate of 5.85% (2001: 6.99%) per annum on interest bearing advances.

**21. BANK BORROWINGS**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Secured	<b>28,302</b>	18,868
Unsecured	<b>14,151</b>	20,000
Total	<b>42,453</b>	38,868

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 22. LOANS FROM MINORITY SHAREHOLDERS

#### THE GROUP

The loans are unsecured, bear interest at 10% per annum and will not be demanded for repayment within one year from the balance sheet date. Accordingly, the loans are shown as non-current liabilities.

### 23. LONG TERM PAYABLES

#### THE GROUP

The amounts represent the payables to certain suppliers and construction companies. Pursuant to the agreed and confirmed payment terms with the suppliers and construction companies, such payables are not demanded for repayment within one year from the dates of respective balance sheet dates. Accordingly, the amounts are shown as non-current liabilities.

### 24. SHARE CAPITAL

	<b>Number of ordinary shares of HK\$0.10 each</b>	<b>Amount HK\$'000</b>
Authorised		
On incorporation	1,000,000	100
Increase in authorised share capital	999,000,000	99,900
	<hr/>	<hr/>
As at 31st December, 2002	1,000,000,000	100,000
Issued and fully paid		
On incorporation	1,000,000	—
Upon the Group Reorganisation		
— 1,000,000 nil paid shares credited as fully paid	—	100
— issue of new shares	110,000	11
Capitalisation issue	208,890,000	20,889
Issue of new shares to the public	82,600,000	8,260
	<hr/>	<hr/>
As at 31st December, 2002	292,600,000	29,260
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 24. SHARE CAPITAL (Continued)

The following changes in the share capital of the Company took place during the period from 2nd November, 2000 (date of incorporation) to 31st December, 2002:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each, all of which were issued and allotted nil paid on 3rd November, 2000. On 18th February, 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of 999,000,000 ordinary shares of HK\$0.10 each, ranking pari passu with the then existing share capital of the Company.
- (b) On 18th February, 2002, as part of the Group Reorganisation, the Company credited the 1,000,000 nil paid ordinary shares referred to in paragraph (a) above as fully paid, and also issued 110,000 ordinary shares of HK\$0.10 each at par and credited as fully paid for the acquisition of entire issued share capital of China Fair Land Properties Limited, the then holding company of the Group.
- (c) On 15th May, 2002, 208,890,000 ordinary shares of HK\$0.10 each were allotted at par as fully paid to the then existing shareholders, in proportion to their respective shareholdings as at the close of business on 15th May, 2002, by way of the capitalisation of a sum of HK\$20,889,000 standing to the credit of the share premium account of the Company.
- (d) On 29th May, 2002, 82,600,000 ordinary shares of HK\$0.10 each were issued at a price of HK\$1.00 per share to the public. The net proceeds from issue of new shares to the public amounting to approximately HK\$62,599,000 were used to settle trade and other payables, for the development of property projects and repayment of bank loans and to provide additional general working capital for the Company.

### 25. SHARE OPTIONS SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 15th May, 2002 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued shares of the Company from time to time.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 25. SHARE OPTIONS SCHEME *(Continued)*

Options granted must be exercised in accordance with the terms of the Scheme at any time during a period of 2 years commencing on the date on which the offer of the grant of the options is made, which must not be more than 10 years from the date of offer of the grant of the option, upon payment of HK\$1 per option.

The exercise price is determined by the directors of the Company, and would not be less than the higher of the average closing price of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options; the closing price of the shares on the Stock Exchange on date of offer; and the nominal value of the shares.

No options have been granted under the Scheme since its adoption.

### 26. RESERVES

	<b>THE COMPANY</b>			
	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Arising from the Group Reorganisation	—	127,961	—	127,961
Arising from shares issued to the public	74,340	—	—	74,340
Share issue expenses	(20,001)	—	—	(20,001)
Capitalisation issue	(20,889)	—	—	(20,889)
Net loss for the period	—	—	(3,933)	(3,933)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	33,450	127,961	(3,933)	157,478
	<hr/>	<hr/>	<hr/>	<hr/>

The contributed surplus of the Company represents the difference between the combined shareholders' funds of China Fair Land Properties Limited at the date on which its shares were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 26. RESERVES (Continued)

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

The Company's reserves available for distribution to shareholders at 31st December, 2002 are as follows:

	<i>HK\$'000</i>
Contributed surplus	127,961
Deficit	(3,933)
	<hr/>
	124,028
	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	Share premium	Minority interests including loans and advances	Amount due to an intermediate holding company	Amount due to ultimate holding company	Amount due to a director	Amounts due to related companies	Bank borrowings
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January, 2001	50	—	53,190	—	52,309	3,305	1,021	20,000
Currency realignment	—	—	523	—	—	—	9	176
Share of results of subsidiaries	—	—	18,079	—	—	—	—	—
Advances during the year	—	—	133	—	—	1,885	1,032	—
Repayments during the year	—	—	—	—	(13,294)	—	—	—
New bank loans raised	—	—	—	—	—	—	—	18,692
As at 31st December, 2001	50	—	71,925	—	39,015	5,190	2,062	38,868
Arising from the Group								
Reorganisation	61	—	—	—	(39,015)	(5,190)	—	—
Issue of new shares to the public	8,260	74,340	—	—	—	—	—	—
Capitalisation issue	20,889	(20,889)	—	—	—	—	—	—
Share issue expenses	—	(20,001)	—	—	—	—	—	—
Share of results of subsidiaries	—	—	7,012	—	—	—	—	—
Share of revaluation surplus of subsidiaries	—	—	1,083	—	—	—	—	—
Advances during the year	—	—	7,531	7,464	—	—	—	—
Repayments during the year	—	—	—	—	—	—	(1,199)	—
New bank loans raised	—	—	—	—	—	—	—	3,585
As at 31st December, 2002	29,260	33,450	87,551	7,464	—	—	863	42,453

### 28. MAJOR NON-CASH TRANSACTION

On 28th November, 2002, 長春長信國際房地產開發有限公司 Changchun Changxin International Real Estate Development Co., Ltd. ("CCCX Real Estate"), a subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with 吉林省長福經貿有限公司 ("長福經貿"). Pursuant to the Agreement, CCCX Real Estate agreed to sell a parcel of land (the "Land") situated in Changchun of the PRC to 長福經貿 for a consideration of approximately HK\$30,670,000. The consideration was partly satisfied by setting off against an amount of approximately HK\$9,434,000 due by 長福經貿 to the immediate holding company of CCCX Real Estate, and the remaining balance of approximately HK\$21,236,000 will be settled before 30th June, 2003.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 29. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged its properties under development and properties held for sales to a bank in the PRC to secure the credit facilities of approximately HK\$28,302,000 (2001: HK\$18,868,000) granted by this bank. The aggregate carrying value of the properties under development and properties held for sales at 31st December, 2002 pledged amounted to approximately HK\$90,551,000 (2001: HK\$40,138,000).

### 30. CONTINGENT LIABILITIES

At 31st December, 2002, the Group provided guarantees of approximately HK\$25,337,000 (2001: HK\$48,140,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificate of the respective property by the banks from the customers as a pledge for security to the mortgage loan granted.

During the year, the State Administration of Tax in the PRC promulgated a circular to all local tax authorities requiring them to levy land appreciation tax on property developers. In the opinion of the directors, after consulting the Group's PRC tax consultants and meeting with the officials responsible for land appreciation tax of the local tax authorities of the relevant cities in which the Group has property development projects, the Group is unlikely to receive demands from the local tax authorities for the payment of land appreciation tax in respect of sales of land and developed properties for the period commencing from 1st January, 2001, the date on which the exemption period lapsed. The Group has not, however, been able to secure written confirmations from the relevant local tax authorities, but the directors consider that there is a small possibility that land appreciation tax might be levied. Against these backgrounds, no provisions for land appreciation tax have been made in these financial statements. Should such levies take place, then land appreciation tax amounts to approximately HK\$37,402,000 (2001: HK\$20,101,000) for the two years ended 31st December, 2002 has to be provided for in these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company were committed to make the following minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP				THE COMPANY	
	2002		2001		2002	
	Rented premises HK\$'000	Office equipment HK\$'000	Rented premises HK\$'000	Office equipment HK\$'000	Rented premises HK\$'000	Office equipment HK\$'000
Operating leases which expire:						
Within one year	995	8	515	—	479	8
In the second to fifth year inclusive	260	42	678	—	260	42
	<b>1,255</b>	<b>50</b>	1,193	—	<b>739</b>	<b>50</b>

### 32. CAPITAL COMMITMENT

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure in respect of capital contribution to a PRC subsidiary contracted for but not provided in the financial statements	<b>3,108</b>	—

The Company had no capital commitments at 31st December, 2002.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 33. RELATED PARTY TRANSACTIONS

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

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Rental paid to Chance Fair International Development Limited ("Chance Fair International"), former ultimate holding company ( <i>Note</i> )	<b>408</b>	442
Reimbursement of interest paid by Chance Fair International on behalf of Shanghai Chance Fair Real Estate Development Co., Ltd. ("Shanghai Chance Fair")	—	4,211
Net consideration on transfer of the entire equity interest in Shanghai Chance Fair from Chance Fair International to China Fair Land (Shanghai) Limited	—	24,523

*Note:*

The Company entered into a sub-tenancy agreement with an intermediate holding company on 22nd May, 2001 pursuant to which the intermediate holding company agreed to sub-lease a portion of the office premises to the Company for a term commenced from 1st January, 2001 to 19th May, 2002 (both days inclusive) at a monthly rental of HK\$40,176 exclusive of other charges. The sub-tenancy agreement was renewed for a term commencing from 20th May, 2002 to 19th May, 2003 (both days inclusive) at a monthly rental of HK\$30,969 exclusive of other charges.

The directors are of the opinion that the above transactions were carried out in the ordinary course of the Group's business and on terms similar to those applicable to transactions with unrelated parties.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st December, 2002*

### **34. RETIREMENT BENEFIT SCHEME**

The Group operates a Mandatory Provident Fund Scheme (the "Hong Kong Scheme") for all qualifying employees in Hong Kong. The assets of the Hong Kong Scheme are held separately from those of the Group in funds under control of trustee. The Group contributes 5% of relevant payroll costs to the Hong Kong Scheme, which contribution is matched by employees.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the relevant local government authorities in the PRC. All employees are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to make contributions to the retirement schemes at rates ranging from 4% to 5% of the basic salaries of its employees.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 35. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE

Details of the Company's subsidiaries and co-operative joint venture at 31st December, 2002 are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	Indirectly	
<b>Subsidiary:</b>					
長春長信國際房地產 開發有限公司 Changchun Changxin International Real Estate Development Co., Ltd.	PRC for a term of 15 years commencing from 1993*	RMB10,000,000	—	75%	Property development
China Fair Land (Changchun) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,001	—	100%	Investment holding
China Fair Land (Qingdao) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Shenyang) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Suzhou) Limited	Hong Kong	Ordinary HK\$2	—	100%	Investment holding
China Fair Land (Nanjing) Limited	Hong Kong	Ordinary HK\$10,002	—	100%	Investment holding
China Fair Land (Ningbo) Limited ("China Fair Land Ningbo")	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,000	—	100%	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 35. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE (Continued)

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	Indirectly	
<b>Subsidiary:</b>					
China Fair Land Properties Limited	British Virgin Islands	Ordinary US\$221	100%	—	Investment holding
China Fair Land (Shanghai) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,002	—	100%	Investment holding
Falcon Fair Development Limited ("Falcon Fair")	Hong Kong	Ordinary HK\$2 Non-voting deferred** HK\$10,002	—	100%	Investment holding and property investment
青島正輝廣廈房地產開發有限公司 Qingdao Zhenghuiguangsha Real Estate Development Co. Ltd.	PRC for a term of 20 years commencing from 2002*	RMB20,000,000	—	70%	Inactive
寧波拓展房地產開發有限公司 Ningbo Tuozhan Real Estate Development Co., Ltd. ("Ningbo Tuozhan")	PRC for a term of 15 years commencing from 1989*	RMB12,000,000	—	37.5%***	Property development
上海正輝房地產開發有限公司 Shanghai Chance Fair Real Estate Development Co., Ltd.	PRC for a term of 70 years commencing from 1999*	US\$3,000,000	—	98%	Property development

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 35. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE (Continued)

Name of company	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activity
			Directly	Indirectly	
<b>Co-operative joint venture:</b>					
幸福苑合作發展開發項目 Fortune Garden Joint Venture Project****	PRC for a period of time to complete the project commencing from 1992*	US\$12,112,472	—	65.63%	Property development

\* These are foreign investment enterprises established in the PRC.

\*\* The rights and restrictions of the non-voting deferred shares of these subsidiaries are set out in paragraph (c) of the section headed "Group reorganisation" in Appendix VI of the prospectus dated 22nd May, 2002 issued by the Company.

\*\*\* On 15th September, 1995, China Fair Ningbo, a wholly-owned subsidiary of the Company, entered into an irrevocable agreement (the "1995 Agreement") with 中國房地產開發總公司寧波分公司 China State Real Estate Development Corporation Ningbo Branch ("Ningbo CSREDC"), a 25% joint venture owner of Ningbo Tuozhan. Pursuant to the 1995 Agreement, Ningbo CSREDC agreed to cooperate with China Fair Ningbo in the management of Ningbo Tuozhan, including the voting by the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC, and acting-in-concert with the directors appointed by China Fair Ningbo.

On 11th May, 2001, China Fair Ningbo and Ningbo CSREDC entered into a confirmation and agreement confirming that the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC have since the signing of the 1995 Agreement always been voting in concert with and in accordance with the instructions of the directors appointed by China Fair Ningbo.

Based on the above-mentioned documents, the Company's directors consider that the Group effectively controls the financial and operating policies of Ningbo Tuozhan. Accordingly, the Company regards Ningbo Tuozhan as a subsidiary and accounts for as such in these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

### 35. SUBSIDIARIES AND CO-OPERATIVE JOINT VENTURE *(Continued)*

\*\*\*\* On 2nd October, 1992, Ningbo Tuozhan entered into a co-operative agreement (the "Co-operative Agreement") with 福建省華福房地產公司 ("Huafu"), 裕景國際有限公司 ("Darco") and Ningbo CSREDC. The Co-operative Agreement provided that the development costs incurred in the development would be shared in the proportion of their respective cost contributions as to 40%, 30%, 15% and 15% amongst Ningbo Tuozhan, Huafu, Darco and Ningbo CSREDC. The Co-operative Agreement also provided that the profits and losses arising from the development would be shared as to 10% by Ningbo Tuozhan and as to 90% among all parties to the Co-operative Agreement (including Ningbo Tuozhan) in the proportion of their respective cost contributions before the period during which Ningbo Tuozhan is still entitled to the tax exemption benefits that enabled Ningbo Tuozhan to be exempted from PRC Enterprise Income Tax for the first two profitable years of operation and thereafter, to be eligible for a 50% relief from PRC Enterprise Income Tax for the following three years. After the tax exemption period, the profits and losses arising from the development would be shared as to 5% by Ningbo Tuozhan and as to 95% among all parties to the Co-operative Agreement (including Ningbo Tuozhan) in proportion of their respective cost contributions. In December 1994, Ningbo Tuozhan agreed to acquire from Ningbo CSREDC its 15% equity interest in the development project for a consideration of approximately RMB20.5 million (equivalent to approximately HK\$19,190,000). In October 1996, the parties to the Co-operative Agreement agreed that Falcon Fair, a wholly-owned subsidiary of the Company, acquired from Huafu and Darco their entire 45% equity interest in the development project. In return, Falcon Fair paid RMB28.0 million and RMB14.0 million (equivalent to approximately HK\$26,168,000 and HK\$13,084,000, respectively) to Huafu and Darco, respectively. On 1st November, 2000, Falcon Fair transferred its 45% equity interest in the development project to China Fair Ningbo.

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