

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- property development
- property investment
- provision of service apartment and property management services
- project management
- pub operations

In the opinion of the directors, the ultimate holding company is Power Resources Holdings Limited, which is incorporated in the British Virgin Islands.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised 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 adopting these SSAPs, are summarised as follows:

SSAP 1 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 on page 18 of the financial statements 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 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were 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.

SSAP 15 prescribes the revised 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. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes that have resulted from them are included in the accounting policy for “Cash and cash equivalents” and “Foreign currencies” in note 3 to the financial statements.

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. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 25 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 periodic remeasurement of investment properties, 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.

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 interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, 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. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries 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 of five years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

On disposal of subsidiaries 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 when 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 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 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.

On disposal of subsidiaries 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.

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.

3. 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/amortisation), 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	Over the terms of the leases
Buildings	2%
Leasehold improvements	Shorter of lease terms and 20% to 30%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and 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 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.

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, capitalised interest during the period of development and other direct costs attributable to such properties. Net realisable value is calculated as the estimated selling price less all costs to completion, if applicable, and costs of marketing and selling.

Leased assets

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. 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.

Cash and cash equivalents

For the purpose of the consolidated 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 bank balances and time deposits represent assets which are not restricted as to use.

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.

3. 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) from the sale of properties and interests in investment properties, on completion of a binding sales contract, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties and interests in investment properties sold;
- (b) rental income from property letting, in the period in which the properties are let and on a straight-line basis over the lease terms;
- (c) income from the provision of service apartments and property management services, and project management, in the period in which such services are rendered;
- (d) receipts from pub operations, upon the delivery of food and beverages to customers;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (f) dividend income, when the shareholders' right to receive payment has been established; and
- (g) from the sale of listed securities, on the trade date.

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. The 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. 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 overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated to Hong Kong dollars 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, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 27(a) to the financial statements.

Employee benefits

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirements benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its Hong Kong employees. 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.

As stipulated by the regulations of the PRC government, each of the Group's subsidiaries in the PRC participates in the central pension scheme operated by the local municipal government for all of their staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme. Contributions under the scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share options 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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the 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.

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 of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments based on the best estimate of the probable future outflow of resources which has been earned by the employees from their service to the Group to the balance sheet date.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The Group's operating businesses are structured and managed separately, according to the location of assets and customers. Each of the Group's geographical segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of other geographical segments. Summary details of the geographical segments are as follows:

- (a) Hong Kong; and
- (b) elsewhere in the People's Republic of China ("PRC").

In determining the Group's business segments, revenues and results are attributed to the segments based on the nature of their operations and the services they provide.

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FINANCIAL STATEMENTS (CONT'D)

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4. SEGMENT INFORMATION (continued)

(a) Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	39,358	44,435	62,532	66,456	101,890	110,891
Other revenue	4,942	737	2,796	3,711	7,738	4,448
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	44,300	45,172	65,328	70,167	109,628	115,339
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment results	13,676	18,567	44,897	49,449	58,573	68,016
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Interest and dividend income and unallocated gains					4,761	5,530
Unallocated expenses					—	(77)
					<hr/>	<hr/>
Profit from operating activities					63,334	73,469
Finance costs					(27,012)	(44,910)
Share of profits of associates					1,696	4,703
Negative goodwill on acquisition of interest in an associate recognised as income					13,290	5,715
					<hr/>	<hr/>
Profit before tax					51,308	38,977
Tax					(7,401)	(4,940)
					<hr/>	<hr/>
Profit before minority interests					43,907	34,037
Minority interests					(13,259)	(13,618)
					<hr/>	<hr/>
Net profit from ordinary activities attributable to shareholders					30,648	20,419
					<hr/>	<hr/>

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FINANCIAL STATEMENTS (CONT'D)

31 December 2002

4. SEGMENT INFORMATION (continued)

(a) Geographical segments (continued)

Group	Hong Kong		Elsewhere in the PRC		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	676,498	707,174	1,142,000	1,018,193	1,818,498	1,725,367
Interests in associates	32,679	27,452	444,177	191,285	476,856	218,737
Unallocated assets					6,254	236
Total assets					2,301,608	1,944,340
Segment liabilities	21,302	19,595	28,378	28,719	49,680	48,314
Unallocated liabilities					1,077,263	924,377
Total liabilities					1,126,943	972,691
Other segment information:						
Depreciation and amortisation	1,517	1,603	2,962	2,883	4,479	4,486
Deficit/(surplus) on revaluation of investment properties	43,200	46,300	(3,332)	25,900	39,868	72,200
Provisions for bad and doubtful debts	2,203	377	273	325	2,476	702
Capital expenditure	77	763	1,155	666	1,232	1,429

(b) Business segments

Over 85% of the Group's revenue, results, assets, liabilities and capital expenditure are derived from the business segment of rental income from property letting, and those of each of the other segments accounted for less than 10% of the consolidated balances.

5. TURNOVER, REVENUE AND GAINS

Turnover represents the total amounts received and receivable on the provision of service apartment and property management services, receipts from pub operations and rental income, net of PRC business taxes, from property letting, after elimination of all significant intra-group transactions.

An analysis of turnover, other revenue and gains is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
Rental income from property letting	91,166	100,811
Service apartment and property management	7,342	5,204
Pub operations	3,382	4,876
	<hr/> 101,890 <hr/>	<hr/> 110,891 <hr/>
Other revenue and gains		
Interest income	4,761	5,231
Gain on disposal of short term listed investments	—	299
Gain on disposal of fixed assets	678	40
Other	7,060	4,408
	<hr/> 12,499 <hr/>	<hr/> 9,978 <hr/>

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FINANCIAL STATEMENTS (CONT'D)

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6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2002 HK\$'000	2001 <i>HK\$'000</i>
Depreciation	4,120	4,217
Amortisation of goodwill*	359	269
Auditors' remuneration	505	538
Provision for bad and doubtful debts	2,476	702
Write back of provision for bad and doubtful debts	—	(375)
Loss on deemed disposal of interest in an associate	5,449	4,333
Staff costs (including directors' remuneration (note 8)):		
Wages and salaries	9,983	8,621
Pension scheme contributions**	206	282
	<u>10,189</u>	<u>8,903</u>
Gross rental income	(91,166)	(100,811)
Less: Outgoings	4,867	4,991
Net rental income	<u>(86,299)</u>	<u>(95,820)</u>
Exchange losses, net	<u>1,588</u>	<u>77</u>

* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

** At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).

7. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 <i>HK\$'000</i>
Interest on bank loans wholly repayable within five years	12,362	24,310
Interest on bank loans wholly repayable after five years	14,650	20,600
	<u>27,012</u>	<u>44,910</u>

8. DIRECTORS' REMUNERATION

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

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Non-executive directors:		
Fees	180	180
Executive directors:		
Salaries	975	1,790
Pension scheme contributions	36	36
	<hr/> 1,191 <hr/>	<hr/> 2,006 <hr/>

Fees include HK\$120,000 (2001: HK\$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

The remuneration of all of the directors fell within the band of nil to HK\$1,000,000 for the years ended 31 December 2001 and 2002.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included one (2001: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2001: four) non-director, highest paid employees are as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries	1,839	1,924
Pension scheme contributions	48	48
	<hr/> 1,887 <hr/>	<hr/> 1,972 <hr/>

The remuneration of the four non-director highest paid employees fell within the band of nil to HK\$1,000,000 for the years ended 31 December 2001 and 2002.

10. TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Group:		
Provision for the year:		
People's Republic of China:		
Hong Kong	2,844	3,547
Elsewhere	4,175	4,299
	7,019	7,846
Overprovision in prior years	—	(983)
	7,019	6,863
Share of tax attributable to associates	382	(1,923)
Tax charge for the year	7,401	4,940

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 in the People's Republic of China have been calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

11. 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, is HK\$46,000 (2001: net profit of HK\$18,062,000).

12. DIVIDENDS

	Group and Company	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Interim dividend of HK0.15 cents, (2001: HK0.15 cents as adjusted for the bonus issues of shares on 19 July 2002) per ordinary share	6,001	6,061
Proposed final dividend of HK\$0.25 cents (2001: HK0.21 cents as adjusted for the bonus issues of shares on 19 July 2002) per ordinary share	10,001	8,334
	16,002	14,395

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$30,648,000 (2001: HK\$20,419,000) and the weighted average of 4,000,526,323 (2001: 4,000,526,323 as adjusted for the bonus issues of shares in 2002) ordinary shares in issue during the year, as adjusted to reflect the bonus issues during the year.

The earnings per share for the year ended 31 December 2001 has been adjusted to take into account the effect of bonus issues of shares during the year ended 31 December 2002.

Diluted earnings per share amount for the years ended 31 December 2001 and 2002 have not been disclosed as no diluting events existed during both years.

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	656,622	656,622
Due from subsidiaries	251,749	265,880
Due to subsidiaries	(1,800)	(1,800)
	906,571	920,702

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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FINANCIAL STATEMENTS (CONT'D)

31 December 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Call Rich Investments Limited	British Virgin Islands	US\$50,000	51.47*/**	Investment holding
Charter Million Investment Limited	Hong Kong/PRC	HK\$2	60	Property investment
Fexlink Limited	Hong Kong	HK\$100	57.5	Property investment
Forever Richland Limited	British Virgin Islands	US\$50,000	75	Investment holding
Fortune Text Holdings Limited	Hong Kong/PRC	HK\$2	60	Property investment
Godfrey Investments Limited	British Virgin Islands	US\$1	100	Investment holding
Good Connection Investments Limited	British Virgin Islands/ PRC	US\$50,000	40.88*/***	Property investment
Grandfield Nominees Limited	Hong Kong	HK\$1,000,000	100	Property investment
Head Wonder International Limited	British Virgin Islands	US\$10,000	60	Investment holding
Kiuson Development Limited	Hong Kong	HK\$100	40.88*/***	Investment holding
Kiuson Development (Shanghai) Ltd.	PRC	US\$10,000,000	40.88*/***	Property investment
Lau & Partners Consultants Limited	Hong Kong/PRC	HK\$10,000	100	Property investment
Limitless Investment Limited	British Virgin Islands	US\$2	100	Investment holding

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FINANCIAL STATEMENTS (CONT'D)

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14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Lucky River Limited	British Virgin Islands	US\$1	100	Investment holding
Maxlord Limited	Hong Kong	HK\$10,000	100	Property investment
Million Growth Investment Limited	Hong Kong	HK\$10,000	100	Provision of recreational services
Multifield (Holdings) Limited	Hong Kong	HK\$1,000,000	100	Investment holding, provision of management services and agency services
Multifield Hotel Serviced Apartment Management (Shanghai) Ltd.	PRC	US\$200,000	75	Provision of property management and administration services
Multifield International Hotel Management Limited	Hong Kong	HK\$10,000	100	Provision of property management and administration services
Multifield Investment (HK) Limited	British Virgin Islands	US\$1	100	Investment holding
Multifield Investment (PRC) Limited	British Virgin Islands	US\$1	100	Investment holding
Multifield Management Services Limited	British Virgin Islands	US\$2	100	Investment holding

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FINANCIAL STATEMENTS (CONT'D)

31 December 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Multifield Properties Holdings Limited	British Virgin Islands	US\$1	100	Investment holding
Multifield Properties Limited	Hong Kong	HK\$9,000	100	Investment holding
Multifield Property Agency Limited	Hong Kong	HK\$2	100	Provision of property agency services
Multifield Property Management Limited	Hong Kong	HK\$2	100	Provision of property management services
Multifield International Holdings (B.V.I.) Limited	British Virgin Islands	US\$40	100	Investment holding
Nichiyu Consultants Limited	British Virgin Islands	US\$2	100	Investment holding
Quick Profits Limited	British Virgin Islands	US\$2	100	Investment holding
Quick Returns Group Limited	British Virgin Islands	US\$1	100	Investment holding
Richwell Properties Limited	Hong Kong	Ordinary HK\$110,000 Non-voting deferred HK\$10,000 #	57.5	Property investment
Silver Nominees Limited	Hong Kong	HK\$2	100	Property investment
Sino Yield Investments Limited	British Virgin Islands	US\$3	66.7	Investment holding
Skilful Investments Limited	British Virgin Islands/ PRC	US\$50,000	40.88*/***	Property letting
Tellink Development Limited	Hong Kong/PRC	HK\$100	100	Property investment

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Triple Luck Investments Limited	British Virgin Islands	US\$50,000	57.5	Investment holding
Verywell Properties Limited	British Virgin Islands/ Hong Kong	US\$1	100	Property investment
Win Channel Enterprises Limited	Hong Kong	HK\$2	66.7	Property investment
Windsor Properties (Shanghai) Co., Ltd.	PRC	US\$5,000,000	100	Property investment
Windsor Property Management (Shanghai) Co., Ltd.	PRC	US\$200,000	100	Provision of property management services
Winner Strong Limited	Hong Kong	HK\$100	57.5	Property investment
Wise Chance Limited	Hong Kong	HK\$100	100	Pub operations
Wise Success Limited	Hong Kong	HK\$100	57.5	Property investment

Except for Multifield International Holdings (B.V.I.) Limited, all subsidiaries are indirectly held by the Company.

* These companies are subsidiaries of non wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over the entities.

** The Group holds a direct equity interest of 45% in this subsidiary, and an indirect equity interest of 6.47% by virtue of the Group's 25.85% interest in Oriental Explorer Holdings Limited, which holds a 25.04% equity interest in this subsidiary.

*** The Group holds a direct equity interest of 37% in these subsidiaries, and an indirect equity interest of 3.88% by virtue of the Group's 25.85% interest in Oriental Explorer Holdings Limited, which hold a 15.02% equity interest in these subsidiaries.

The deferred shares carry no rights to dividends, no rights to vote at general meetings, no rights to participate in the profits or assets and no rights to receive any surplus on a return of capital on a winding-up (other than the amount paid up on such shares, provided that the holders of the ordinary shares of that company have been distributed, in the winding-up, a sum of HK\$100,000,000,000 in aggregate).

The above table lists 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 other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2002

15. FIXED ASSETS

GROUP

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 January 2002	9,802	5,098	17,524	3,925	36,349
Additions	—	—	1,232	—	1,232
Disposals	—	(359)	(787)	(1,232)	(2,378)
Exchange realignment	6	—	227	77	310
At 31 December 2002	9,808	4,739	18,196	2,770	35,513
Accumulated depreciation:					
At 1 January 2002	281	4,297	12,447	2,723	19,748
Provided during the year	156	369	3,081	514	4,120
Disposals	—	(359)	(586)	(1,078)	(2,023)
Exchange realignment	—	—	168	64	232
At 31 December 2002	437	4,307	15,110	2,223	22,077
Net book value:					
At 31 December 2002	9,371	432	3,086	547	13,436
At 31 December 2001	9,521	801	5,077	1,202	16,601

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2002

15. FIXED ASSETS (continued)

The Group's leasehold land and buildings included above are held in elsewhere of the PRC under the following lease terms:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At cost:		
Long term leases	308	302
Medium term leases	9,500	9,500
	9,808	9,802

Certain of the Group's land and buildings with a net book value of approximately HK\$9,167,500 (2001: HK\$9,310,000) were pledged to secure general banking facilities granted to the Group (note 21).

16. INVESTMENT PROPERTIES

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At beginning of year	1,375,100	1,447,300
Prior years' development cost overprovision	(332)	—
Deficit on revaluation	(39,868)	(72,200)
At end of year	1,334,900	1,375,100

The Group's investment properties at 31 December 2002 are situated in the PRC and are held under the following lease terms:

	Hong Kong <i>HK\$'000</i>	Elsewhere <i>HK\$'000</i>	Total <i>HK\$'000</i>
Long term leases, at valuation	230,000	972,200	1,202,200
Medium term leases, at valuation	132,700	—	132,700
	362,700	972,200	1,334,900

The revaluation of the Group's investment properties as at 31 December 2002 was performed by B.I. Appraisals Limited, an independent firm of professionally qualified valuers, on an open market value, existing use basis.

The investment properties held by the Group are leased to third parties under operating leases, further summary details which are included in note 30 to the financial statements.

At 31 December 2002, certain of the Group's investment properties with a value of HK\$1,319,300,000 (2001: HK\$943,500,000), were pledged to secure general banking facilities granted to the Group (note 21).

Further particulars of the Group's investment properties are included on pages 56 to 58.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2002

17. GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

	Group <i>HK\$'000</i>
Cost:	
At beginning of year and at 31 December 2002	1,795
Accumulated amortisation:	
At beginning of year	269
Amortisation provided during the year	359
At 31 December 2002	628
Net book value:	
At 31 December 2002	1,167
At 31 December 2001	1,526

18. INTERESTS IN ASSOCIATES

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Share of net assets:		
Listed investment in Hong Kong	69,395	71,356
Unlisted investments	274,719	44,823
Negative goodwill on acquisition	(12,665)	(25,252)
	331,449	90,927
Loans to associates	212,314	158,570
Loans from associates	(66,907)	(30,760)
	476,856	218,737
Listed shares, at market value	24,665	25,607

The market value of the Group's listed investment in an associate at the date of approval of these financial statements was approximately HK\$16,753,000.

Except for a loan to an associate amounting to HK\$92,740,000 (2001: HK\$79,462,000) which is interest-bearing at 10% per annum (2001: 10% per annum), the loans to/from the associates are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2002

18. INTERESTS IN ASSOCIATES (continued)

The amounts of negative goodwill recognised in interests in associates arising from the acquisition thereof are as follows:

	Group <i>HK\$'000</i>
Cost:	
At beginning of year	36,915
Acquisition of interest in an associate	2,607
Arising from deemed disposal of interest in an associate	(5,165)
	<hr/>
At 31 December 2002	34,357
	<hr/>
Accumulated recognition as income:	
At beginning of year	11,663
Recognised as income during the year	13,290
Arising from deemed disposal of interest in an associate	(3,261)
	<hr/>
At 31 December 2002	21,692
	<hr/>
Net book value:	
At 31 December 2002	12,665
	<hr/>
At 31 December 2001	25,252
	<hr/>

Extracts of the published consolidated operating results and consolidated financial position of a major associate, Oriental Explorer Holdings Limited, are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Operating results for the year:		
Turnover	1,051,836	720,993
	<hr/>	<hr/>
Net profit attributable to shareholders	3,868	28,936
	<hr/>	<hr/>
Financial position:		
Non-current assets	118,360	92,801
Current assets	222,932	287,043
Current liabilities	(72,834)	(126,900)
	<hr/>	<hr/>
Net assets	268,458	252,944
	<hr/>	<hr/>

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2002

18. INTERESTS IN ASSOCIATES (continued)

The consolidated operating results and consolidated financial position of another major associate, Rich Returns Limited, are as follows:

	2002 HK\$'000	2001 HK\$'000
Operating results for the year:		
Turnover	<u>2,781</u>	<u>—</u>
Net profit/(loss) attributable to shareholders	<u>645</u>	<u>(209)</u>
Financial position:		
Non-current assets	900,272	356,691
Current assets	33,344	16,658
Current liabilities	(360,201)	(259,701)
Net assets	<u>573,415</u>	<u>113,648</u>

Details of the principal associates, which are all of a corporate business structure, are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Prince Properties Limited	Hong Kong	50	Investment holding
Rich Returns Limited*	British Virgin Islands	51.10	Investment holding
Ever Ford Development Limited*	Hong Kong	51.10	Investment holding
Windsor Property Development (Shanghai) Co., Ltd.*	PRC	51.10	Property investment
Linkful (Holdings) Limited	Hong Kong	25.85	Investment holding
Linkful Metals Trading Limited	British Virgin Islands/ Thailand	25.85	Metal trading
Linkful Worldwide (Holdings) Limited	British Virgin Islands	25.85	Investment holding
Linkful Worldwide Investment Limited	British Virgin Islands	25.85	Investment holding
Linkful (PRC) Investments Limited	Hong Kong	25.85	Investment holding
Linkful Investment (Holdings) Limited	British Virgin Islands	25.85	Investment holding
Katarti Navigation Company Limited	Cyprus	25.85	Vessel holding

NOTES TO
FINANCIAL STATEMENTS (CONT'D)

31 December 2002

18. INTERESTS IN ASSOCIATES (continued)

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Oriental Explorer Holdings Limited	Bermuda	25.85	Investment holding
Linkful Management Consultancy Limited	British Virgin Islands	25.85	Investment holding
Linkful Management Services Limited	Hong Kong	25.85	Provision of management services
Linkful Secretarial Services Limited	Hong Kong	25.85	Provision of consultancy services
Linkful Strategic Investment Limited	British Virgin Islands	25.85	Investment holding
Linkful Properties Company Limited	Hong Kong	25.85	Investment and property holding
Linkful (PRC) Holdings Limited	British Virgin Islands	25.85	Investment holding
Inter China Limited#	British Virgin Islands	14.73	Investment holding
East Winner Limited	British Virgin Islands	25.85	Investment holding
Linkful Electronics Limited	British Virgin Islands	25.85	Investment holding
Alphatronics Limited#	Hong Kong	19.39	Trading of electronic products
Alphatronics Electronic (Shenzhen) Co., Ltd.#	PRC	19.39	Manufacture of electronic components
Snowdon Worldwide Limited	British Virgin Islands	25.85	Investment holding

* The Group holds a direct equity interest of 48% in these associates, and an indirect equity interest of 3.10% (2001: 3.38%) by virtue of the Group's 25.85% (2001: 28.21%) interest in Oriental Explorer Holdings Limited, which holds a 12.00% (2001: 12.00%) equity interest in these associates.

These companies are non wholly-owned subsidiaries of an associate of the Group and, accordingly, are accounted for as associates by virtue of the associate's control over these entities.

Except for Prince Properties Limited, Rich Returns Limited and Oriental Explorer Holdings Limited which are held through wholly-owned subsidiaries of the Group, all associates are held by other associates.

The above table lists the associates of the Group 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 other associates would, in the opinion of the directors, result in particulars of excessive length.

19. PROPERTIES HELD FOR SALE

The properties held for sale are stated at cost, and are held under medium term leases in Hong Kong and are pledged to the extent of HK\$253,666,000 to secure general banking facilities granted to the Group (note 21).

20. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable at the balance sheet date is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
1 - 3 months	3,318	4,175
4 - 6 months	425	681
Over 6 months	148	48
	3,891	4,904

The tenants are usually required to settle the rental payments on the first day of the rental period, and are required to pay rental deposits with amounts ranging from two to three months' rental in order to secure any default in their rental payments.

21. BANK LOANS, SECURED

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans are repayable:		
Within one year	122,752	59,798
In the second year	336,259	62,244
In the third to fifth years, inclusive	214,690	365,971
Wholly repayable beyond five years	130,774	199,935
	804,475	687,948
Less: Portion due within one year classified as current liabilities	(122,752)	(59,798)
Long term portion	681,723	628,150

The Group's banking facilities were secured by:

- (i) first legal charges over certain of the Group's investment properties, fixed assets and properties held for sale with an aggregate net book value of approximately HK\$1,581 million at the balance sheet date;
- (ii) personal guarantees given by certain directors of the Company and its subsidiaries and the minority shareholders; and
- (iii) corporate guarantees issued by the Company.

22. ACCOUNTS PAYABLE

An aged analysis of accounts payable at the balance sheet date is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
1 - 3 months	1,282	1,198
4 - 6 months	9	—
Over 6 months	1,623	—
	<u>2,914</u>	<u>1,198</u>

23. DUE TO A DIRECTOR/MINORITY SHAREHOLDER

The amount due to a director is unsecured, interest-free and is not repayable within one year. The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

24. DEFERRED TAX

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At beginning and end of year	<u>31,131</u>	<u>31,131</u>

The major components of the Group's provision for deferred tax, which have been provided for in the financial statements, are related to the tax effect on unrealised losses on property transactions between Group companies.

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 Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

25. SHARE CAPITAL

Shares

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<i>Authorised:</i>		
50,000,000,000 (2001: 5,000,000,000) shares of HK\$0.01 (2001: HK\$0.10) each	<u>500,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
4,000,526,323 (2001: 3,333,771,936) shares of HK\$0.01 (2001: HK\$0.10) each	<u>40,005</u>	<u>333,377</u>

25. SHARE CAPITAL (continued)

During the year, the movements in share capital were as follows:

- (i) Pursuant to a resolution passed in a special general meeting held on 17 April 2002, the Company's authorised share capital was reduced from HK\$500,000,000 to HK\$50,000,000 divided into 5,000,000,000 shares of HK\$0.01 each and the authorised share capital was then increased to HK\$500,000,000 by the creation of 45,000,000,000 additional shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.
- (ii) During the year, the following movements in the issued and fully paid share capital of the Company were noted:

Period	Description	Number of ordinary shares	Issued share capital HK\$'000
	Balance at beginning of year	3,333,771,936	333,377
17 April 2002 (a)	Capital reduction	—	(300,039)
19 July 2002 (b)	One-for-five bonus issue	666,754,387	6,667
	Balance at end of year	<u>4,000,526,323</u>	<u>40,005</u>

- (a) On 17 April 2002, a resolution was passed in a special general meeting, whereby the par value of the Company's shares was reduced from HK\$0.10 to HK\$0.01 each, by the cancellation of HK\$0.09 of the nominal value of each share. The credit arising from this capital reduction of HK\$300,039,000 was transferred to the contributed surplus account of the Company, as detailed in note 26 to the financial statements.
- (b) On 21 June 2002, the directors recommended a bonus issue of one new share for every five existing shares held by the shareholders whose names appeared on the register of members of the Company on 21 June 2002. On 19 July 2002, 666,754,387 shares of HK\$0.01 each were allotted by way of capitalisation of the Company's contributed surplus of HK\$6,667,000.

25. SHARE CAPITAL *(continued)*

Share option scheme

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 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 the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the executive directors and other employees of the Group. The Scheme became effective on 10 July 1998 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 Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time (except shares issued upon exercise of options granted pursuant to the Scheme). As there were no share options being granted since the establishment of the Scheme, there were no shares issuable under share options granted under the Scheme as at 31 December 2002. The maximum number of shares in respect of which options may be granted to any participant together with any shares issued in respect of options which have been exercised by them and any shares which would be issued upon exercise of outstanding options granted to them shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme. The share options may be exercised in accordance with the terms of the Scheme at any time during the period to be determined and notified by the board of directors to each grantee, and in any event such period of time should expire no later than the last day of 10 years from the date of adoption of the Scheme, i.e., 10 July 1998.

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors.

The exercise price of the share options is determinable by the board of directors, but may not be less than the higher of (i) the nominal value of the shares; and (ii) 80% of the average Stock Exchange official closing price of the Company's shares for the five trading days immediately preceding the date on which the options are granted to the participant.

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

No share options have been granted, exercised, lapsed or cancelled since the establishment of the Scheme.

In accordance with the Listing Rules, certain terms of the scheme need to be amended, or alternatively, a new Share Option Scheme needs to be implemented, in order to comply with the requirements of the Listing Rules. According to the Listing Rules as amended on 1 September 2001, no more share is available for issue under the Scheme.

26. RESERVES

Group

The amounts 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 on page 18 of the financial statements.

Company

	<i>Notes</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
1 January 2001		589,701	66,764	656,465
Issues of bonus shares		(80,819)	—	(80,819)
Net profit for the year		—	18,062	18,062
Interim 2001 dividend	12	—	(6,061)	(6,061)
Proposed final 2001 dividend	12	—	(8,334)	(8,334)
		<hr/>	<hr/>	<hr/>
At 31 December 2001 and 1 January 2002		508,882	70,431	579,313
Arising from capital reduction	25	300,039	—	300,039
Issues of bonus shares	25	(6,667)	—	(6,667)
Net loss for the year		—	(46)	(46)
Interim 2002 dividend	12	—	(6,001)	(6,001)
Proposed final 2002 dividend	12	—	(10,001)	(10,001)
		<hr/>	<hr/>	<hr/>
At 31 December 2002		<u>802,254</u>	<u>54,383</u>	<u>856,637</u>

The contributed surplus of the Company at 1 January 2001 arose as a result of the Group reorganisation in preparation for the public listing of the Company's shares and warrants on The Stock Exchange of Hong Kong Limited in 1998 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus may be distributed to the Company's shareholders under certain circumstances.

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FINANCIAL STATEMENTS (CONT'D)

31 December 2002

27. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before tax to net cash inflow from operating activities:

	<i>Notes</i>	2002 HK\$'000	2001 <i>HK\$'000</i>
Profit before tax		51,308	38,977
Adjustments for:			
Finance costs	7	27,012	44,910
Share of profits of associates		(1,696)	(4,703)
Interest income	5	(4,761)	(5,231)
Gain on disposal of fixed assets	5	(678)	(40)
Depreciation	6	4,120	4,217
Amortisation of goodwill	6	359	269
Negative goodwill recognised as income		(13,290)	(5,715)
Provision for bad and doubtful debts	6	2,476	702
Provisions for other receivables		—	375
Loss on deemed disposal of interest in an associate	6	5,449	4,333
PRC indirect taxes		8,613	8,404
Operating profit before working capital changes		78,912	86,498
Decrease/(increase) in accounts receivable		(1,463)	1,269
Decrease in short term investments		—	1,320
Decrease/(increase) in prepayments, deposits and other receivables		11,371	(26)
Increase/(decrease) in accounts payable		1,716	(3,682)
Increase/(decrease) in accrued expenses and other payables		2,674	(2,260)
Decrease in deposits received		(2,700)	(1,223)
Cash generated from operations		90,510	81,896
Hong Kong profits tax paid		(5,443)	(268)
Hong Kong profits tax refunded		78	489
PRC taxes paid		(9,299)	(4,627)
Net cash inflow from operating activities		75,846	77,490

27. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary

	2002 HK\$'000	2001 <i>HK\$'000</i>
Net assets acquired:		
Cash and bank balances	—	272
Accounts receivable	—	10
Prepayments, deposits and other receivables	—	504
Accounts payable	—	(19)
Accrued expenses and other payables	—	(1,582)
	<hr/>	<hr/>
	—	(815)
Goodwill on acquisition	—	1,795
	<hr/>	<hr/>
	—	980
	<hr/>	<hr/>

	2002 HK\$'000	2001 <i>HK\$'000</i>
Satisfied by:		
Cash	—	980
	<hr/>	<hr/>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Cash consideration	—	(980)
Cash and bank balances acquired	—	272
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	—	(708)
	<hr/>	<hr/>

On 31 March 2001, the Group acquired a 100% interest in Million Growth Investment Limited ("Million Growth"). Million Growth is engaged in the provision of recreational services. The transaction was classified as a related party transaction, further details of which are included in note 32 to the financial statements. The purchase consideration for the acquisition was in the form of cash.

Since its acquisition, Million Growth had no significant contribution to the Group's turnover or the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

27. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Major non-cash transactions

During the year, bonus issues of the Company's shares were credited by way of capitalisation of the Group's contributed surplus of HK\$6,667,000 (2001: retained profits of HK\$80,819,000).

28. COMMITMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Capital commitments:		
Authorised and contracted for:		
Group:		
Acquisition of additional interest in an associate	15,000	—
Associates:		
Properties under development	—	13,931
	<u>15,000</u>	<u>13,931</u>

At th balance sheet date, the Company did not have any significant commitments.

29. CONTINGENT LIABILITIES

The Company had guarantees amounting to HK\$497,890,000 (2001: HK\$438,223,000) given to banks for the banking facilities, which had been fully utilised at the balance sheet date, granted by the banks to certain subsidiaries.

Apart from the above, the Group and Company did not have any material contingent liabilities at the balance sheet date.

30. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties and properties held for sale (notes 16 and 19 to the financial statements, respectively) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The tenants are usually required to settle the rental payments on the first day of the rental period, and are required to pay rental deposits with amounts ranging from two to three months' rental in order to secure any default in their rental payments.

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	2001
	HK\$'000	HK\$'000
Within one year	67,933	79,268
In the second to fifth years, inclusive	17,831	29,949
	85,764	109,217

31. POST BALANCE SHEET EVENT

On 25 November 2002, Godfrey Investments Limited, a wholly-owned subsidiary of the Company, entered into an agreement with a shareholder ("the Vendor") of an associate of the Group, Rich Returns Limited, to purchase a 3% equity interest in Rich Returns Limited for a cash consideration of approximately HK\$12,531,000, as well as taking an assignment from the Vendor of its right, title, benefit and interest in and to a loan in the amount of approximately HK\$5,469,000 owed by Rich Returns Limited to the Vendor. After the acquisition, the Group had an equity interest of 51% in Rich Returns Limited. A deposit of HK\$3,000,000 was paid by the Group upon signing of the above agreement, which has been recorded as non-current assets in the balance sheet. The remaining consideration of HK\$5,000,000 and HK\$10,000,000 were due on 20 February 2003 and 18 March 2003, respectively. The above acquisition was completed on 18 March 2003. The financial information of Rich Returns Limited at the balance sheet date is set out in note 18 to the financial statements.

32. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	<i>Note</i>	2002 HK\$'000	2001 <i>HK\$'000</i>
Lease rental received from Linkful Management Services Limited	(i)	1,500	1,800
Business management fees received from Linkful Management Services Limited	(i)	960	960
Interest income received from an associate	(ii)	4,196	4,132
Advances to associates	(iii)	49,548	34,199
Advances from associates	(iii)	23,762	8,599
Acquisition of interest in a subsidiary from Smart Win Development Limited	(iv)	—	980
		<hr/>	<hr/>

Notes:

- (i) Mr. Lau Chi Yung, Kenneth ("Mr. Lau") and Mr. Tsang Pak Chung, Eddy, directors of the Company, are the directors of Linkful Management Services Limited. Mr. Lau is also a substantial shareholder of Oriental Explorer Holdings Limited, the ultimate holding company of Linkful Management Services Limited.

The lease rental received was arrived at after negotiations between both parties with reference to the prevailing market rentals. The management fees were charged based on the direct costs incurred.

- (ii) The interest income received from an associate was charged at 10% per annum.

- (iii) The terms of the advances are set out in note 18 to the financial statements.

- (iv) In the prior year, Mr. Lau was involved in, and had a significant influence over the making of financial and operating decisions of Smart Win Development Limited ("Smart Win"). Hence, the acquisition was considered to be a related party transaction. The consideration was determined by reference to the nominal value of issued share capital of the subsidiary acquired and a loan advanced to it by Smart Win.

33. COMPARATIVE FIGURES

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs 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 conform 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.