

Notes to the Financial Statements

For the year ended 31 December 2002

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability on 8 April 1994 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are property development, property leasing and provision of building management services.

The Directors consider the Company's ultimate holding company to be Ko Bee Limited, which is incorporated in the British Virgin Islands with limited liability.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 24 to 76 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties.

The financial statements have been prepared on the going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group had net current liabilities of HK\$15,456,000 as at 31 December 2002. During the year, debt restructure of the Group, which was made in the year ended 31 December 2000 expired and the Debt Restructure Agreement dated 8 May 2000 was cancelled. At the same time, the Group successfully entered into new re-financing arrangements with its bankers. The Group's continuance in business as a going concern is dependent upon the Group attaining future profitable operations and the continuing support of its bankers and ultimate holding company.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets and non-current liabilities as current liabilities.

In the current year, the Group has adopted for the first time, the following revised and new SSAPs:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits



Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

Adoption of these revised and new SSAPs has led to a number of changes in the Group's accounting policies. In addition, the revised and new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements as set out below.

In adopting SSAP 1 (Revised), the Group is required to present a statement of changes in equity instead of a statement of recognised gains and losses. Comparative amounts have been restated to achieve a consistent presentation.

In adopting SSAP 15 (Revised), the Group is required to prepare a cash flow statement to report cash flows during the year classified by operating, investing and financing activities only. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Comparative figures have been restated to achieve a consistent presentation.

In adopting SSAP 34, employee entitlements to annual leave and long service payment are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave. The adoption of SSAP 34 had no material impact on the financial statements and no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material inter-company transactions and balances within the Group are eliminated on consolidation. The financial statements also include the Group's share of post-acquisition results and reserves of its associates.

Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Goodwill

Positive goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. Positive goodwill for subsidiaries and associates are stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses and included in interests in associates respectively.

Negative goodwill represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised as income on a systematic basis over the remaining weighted average useful life of those acquired depreciable/amortisable assets. Negative goodwill in excess of the fair value of the non-monetary assets acquired is recognised immediately in the consolidated income statement. In respect of any negative goodwill not yet recognised in the consolidated income statement:

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

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are carried at cost less impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The results of the associates are accounted for by the Group using the equity method of accounting. The interest in associates in the consolidated balance sheet is stated at the Group's share of net assets of the associates.

An assessment of interest in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

When the Group transacts with its associates, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associates except where unrealized losses provide evidence of an impairment of the asset transferred.

(f) Property, plant and equipment

(i) Depreciation and amortization

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Building	2% or over the relevant lease terms, if shorter
Leasehold improvements	30%
Furniture, fixtures and equipment	15%
Motor vehicles	15%

Leasehold land is amortized over the remaining unexpired period of the lease.

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

(ii) *Measurement bases*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(g) Properties

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties held on leases with unexpired periods longer than 20 years are valued annually by professionally qualified executives of the Group and at least every three years by external valuers holding professional qualifications. The valuations are on an open market value basis related to individual properties. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties revaluation reserve; decreases are first offset against increases on earlier valuations on a portfolio basis and thereafter are charged to operating profit. A revaluation increase is recognised as income to the extent that it reverses a revaluation decrease previously recognised as an expense.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining period of the lease.

Upon disposal, the revaluation surpluses or deficits relating to the investment properties disposed of are released from the investment property revaluation reserve and charged to the income statement.

Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Properties (Continued)

(ii) *Properties held for or under development*

Properties held for or under development with the intention for holding for long-term purposes when completed or where no decision has yet been made on their purpose are included in the balance sheet as non-current assets and stated at cost, less necessary provision for impairment loss. Cost comprises the cost of acquisition of such properties, together with development expenditure, other relevant direct costs and borrowing costs capitalised in accordance with the Group's accounting policy.

No depreciation is provided on properties which are held for or under development.

(iii) *Properties for sale*

Properties for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development cost and other direct costs attributable to the properties concerned until they reach a marketable state. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated costs necessary to make the sale.

(h) Leases

Finance leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the asset to the Group. Assets acquired by way of finance leases are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the lease. The corresponding liabilities net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payments are charged to the income statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each accounting period.

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the weighted average method and where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(j) Other investments

Other investments are intended to be held on a continuing basis for an identified long-term purpose and are stated in the balance sheet at cost less any provisions for impairment losses. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

(k) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

(l) Deferred tax/Future tax benefits

Deferred tax is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallise in the foreseeable future.

Future tax benefit is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

(m) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Impairment

The carrying amounts of the Group's assets, other than investment property, properties held for sales and inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) *Reversals of impairment*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is certain.

Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service payment are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognized until the time of leave.

(ii) *Pension obligation*

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the fund.

(q) Revenue recognition

Income arising from sale of properties is recognised upon completion of sales and pass of titles to buyers.

Income from properties under development for sale is recognised upon completion of sale or when the relevant occupation permit is issued by the Building Authority, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in current liabilities.

Rental income from properties letting under operating leases is recognised on the straight line basis over the lease terms.

Income from management services, property repair and maintenance services are recognised in the period when respective services are rendered.

Interest income is recognised on a time proportion basis on the principal outstanding and at the interest rate applicable.

Notes to the Financial Statements

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Borrowing costs

Costs incurred on borrowings that are directly attributable to the development of properties are capitalised as part of the cost of properties up to the completion of their development. Any other borrowing costs are charged to the income statement in the period in which they are incurred.

(s) 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.

(t) Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include item directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group companies within a single segment. Inter-segment pricing is based on similar terms as those available to other internal parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

Notes to the Financial Statements

For the year ended 31 December 2002

3. TURNOVER

	2002	2001
	HK\$'000	HK'000
Proceeds from sale of properties	8,549	612,958
Rental income	80,871	78,981
Building management service income	3,817	3,346
Property repair and maintenance service income	24,633	4,767
Mortgage interest income	833	1,420
Income from signage rental	9,913	8,761
Office facilities and service income	794	543
	129,410	710,776

4. SEGMENTAL INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format, with each segment organized and managed separately.

Business segments

Property development	:	Property development and sales of properties
Property leasing	:	Property rental including signage rental
Building management and other services	:	Property management, repair and maintenance services

The Group's inter-segment transactions were related to rental and management fee charges. Terms of rental charge were similar to those contracted with third parties. Management fee charges were determined by Directors.

Notes to the Financial Statements

For the year ended 31 December 2002

4. SEGMENTAL INFORMATION (Continued)

The following table presents revenue and results information for the year ended 31 December 2002 and certain asset and liability information as at 31 December 2002 for the Group's business segments:

	Property development		Property leasing		Building management services		Others		Elimination		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue												
External customers	8,549	612,958	91,578	88,285	28,450	8,113	833	1,420	—	—	129,410	710,776
Inter-segments	—	—	3,788	2,445	—	—	14,038	16,295	(17,826)	(18,740)	—	—
	8,549	612,958	95,366	90,730	28,450	8,113	14,871	17,715	(17,826)	(18,740)	129,410	710,776
Segment results	(202,089)	(83,233)	83,213	74,897	7,159	4,123	(229,786)	(161,200)	—	—	(341,503)	(165,413)
Inter-segment transactions	—	—	3,280	4,195	—	—	(3,280)	(4,195)	—	—	—	—
Contribution from operations	(202,089)	(83,233)	86,493	79,092	7,159	4,123	(233,066)	(165,395)	—	—	(341,503)	(165,413)
Unallocated income and expenses											18,121	73,897
Loss from operations											(323,382)	(91,516)
Finance costs											(95,713)	(145,364)
Gain on deemed disposal of interest in a subsidiary											4,712	—
Share of profits less losses of associates											4	12
Taxation											(226)	(3,053)
Minority interest											2,834	2,091
Net loss for the year											(411,771)	(237,830)
Segment assets	38,839	38,846	1,719,747	2,049,191	5,725	8,409	34,419	249,629			1,798,730	2,346,075
Interests in associates											2,948	2,966
Total assets											1,801,678	2,349,041
Segment liabilities	871	15	45,925	52,880	8,034	6,489	20,587	62,238			75,417	121,622
Unallocated liabilities											1,399,928	1,687,757
Total liabilities											1,475,345	1,809,379

Notes to the Financial Statements

For the year ended 31 December 2002

4. SEGMENTAL INFORMATION (Continued)

Other segmental information extracted from the income statement and balance sheet.

	Property development		Property leasing		Building management services		Others		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure	—	—	12,700	112,871	4	8	821	1,866	13,525	114,745
Depreciation	—	—	787	791	25	24	1,076	1,436	1,888	2,251
Amortisation of goodwill	—	—	—	—	—	—	14,921	14,921	14,921	14,921
Provision of doubtful debts	—	—	—	1,536	—	—	32,790	981	32,790	2,517
Provision for inventories	—	—	—	—	—	—	24,612	—	24,612	—
Provision for properties	1,590	29,500	—	—	—	—	—	—	1,590	29,500
Impairment loss on goodwill	—	—	—	—	—	—	137,451	120,000	137,451	120,000

All the Group's business segment operations were carried out in Hong Kong.

5. OTHER REVENUE

	2002	2001
	HK\$'000	HK\$'000
Interest income	762	814
Waiver of bank creditors	—	66,379
Miscellaneous income	1,443	10,243
Forfeited deposit written back	12,729	—
Interest claimed on forfeited deposit	16,500	—
Gain on disposal of subsidiaries	—	34
	31,434	77,470

Notes to the Financial Statements

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6. LOSS FROM OPERATIONS

	2002	2001
	HK\$'000	HK\$'000
Loss from operations is arrived at after charging:		
Amortisation of goodwill	14,921	14,921
Impairment loss on goodwill (note 19)	137,451	120,000
Auditors' remuneration	593	756
Depreciation	1,888	2,251
Cost of properties sold	8,723	665,169
Provision for diminution in value of properties for sales, held for and under development	1,590	29,500
Provision for impairment loss of property, plant and equipment	5,388	—
Provision for inventories	24,612	—
Provision for doubtful debts	32,790	2,517
Staff costs (excluding directors' remuneration)	11,335	16,082
Amount recognised as expenses for defined contribution plan	416	498
Reversal of investment property revaluation deficit	200,075	—
and crediting:		
Gross rental income from investment properties	(76,808)	(74,721)
Less: Outgoings	3,488	2,576
	(73,320)	(72,145)
Other rental income from other properties less outgoings	(4,008)	(4,169)
	(77,328)	(76,314)

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7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and other borrowing wholly repayable within five years	66,360	133,628
Interest on other borrowing wholly repayable after five years	20,489	36,474
Provision for charges arising from unexercised warrants issued to bankers in connection with Debt Restructure Agreement (note 31)	8,813	—
Finance charges on obligations under finance leases	51	15
Total borrowing costs	95,713	170,117
Interest capitalised	—	(24,753)
	95,713	145,364

The Group has not capitalised any interest for the year (2001: 5.2% – 9.5% per annum).

8. GAIN ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

The amount represented profit on deemed disposal of interest in Well Pacific Development Limited, one of the Group's subsidiaries, as a result of the issuance of new shares by Well Pacific Development Limited to other investors.

9. TAXATION

The charge comprises:

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax:		
– Current year	226	3,794
– Over provision in prior years	—	(741)
	226	3,053

Hong Kong profits tax is calculated at the rate of 16% (2001: 16%) on the estimated assessable profit of the year.

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10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated loss attributable to shareholders of HK\$411,771,000 (2001: HK\$237,830,000), a loss of HK\$167,263,000 (2001: HK\$2,191,062,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE**(a) Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$411,771,000 (2001: HK\$237,830,000) and on 3,116,402,151 ordinary shares in issue during the year.

(b) Diluted loss per share

No diluted loss per share has been presented for the current and previous years because the conversion/exercise of potential ordinary shares would have been anti-dilutive in both years.

12. INVESTMENT PROPERTIES

	2002	2001
	HK\$'000	HK\$'000
Valuation		
As at 1 January 2002	1,980,278	1,470,100
Transfer from properties under development	–	1,060,115
Additions	12,416	731
Disposals	(300,100)	(350,593)
Deficit arising on revaluation	–	(200,075)
As at 31 December 2002	1,692,594	1,980,278

All investment properties are situated in Hong Kong and held under long-term leases.

As at 31 December 2002, the investment properties were revalued on an open market basis by the Directors with the assistance of professional valuers.

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
As at 1 January 2002	5,883	8,444	8,935	1,870	25,132
Additions	—	638	406	481	1,525
Disposals	—	(1,227)	(1,803)	(306)	(3,336)
As at 31 December 2002	5,883	7,855	7,538	2,045	23,321
Accumulated depreciation and impairment					
As at 1 January 2002	218	6,826	4,068	747	11,859
Charge for the year	—	764	873	251	1,888
Disposals	—	(1,203)	(1,206)	(193)	(2,602)
Impairment	2,650	—	2,358	380	5,388
As at 31 December 2002	2,868	6,387	6,093	1,185	16,533
Net book value					
As at 31 December 2002	3,015	1,468	1,445	860	6,788
As at 31 December 2001	5,665	1,618	4,867	1,123	13,273

Leasehold land and buildings are situated in the People's Republic of China ("PRC") and held under medium-term leases.

The cost of property, plant and equipment includes an amount of HK\$120,000 in respect of assets held under finance leases (2001 : HK\$120,000) and the related accumulated depreciation amounts to HK\$36,000 (2001 : HK\$18,000).

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14. PROPERTIES HELD FOR DEVELOPMENT

	2002	2001
	HK\$'000	HK\$'000
Cost		
As at 1 January 2002	7,823	29,721
Additions	12,000	–
Disposals	(7,823)	(21,898)
As at 31 December 2002	12,000	7,823

Properties held for development are situated in Hong Kong and are held under long-term leases.

15. INTERESTS IN SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	2,318,856	2,318,856
Less: Provision for impairment	(1,773,856)	(1,618,856)
	545,000	700,000
Amounts due from subsidiaries	1,473,404	1,477,671
Less: Provision for doubtful debts	(1,473,404)	(1,477,671)
	–	–
	545,000	700,000

Amounts due from subsidiaries are interest-free, unsecured and have no fixed repayment terms.

Notes to the Financial Statements

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15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2002 are as follows:

Name	Place of incorporation/ operation	Particulars of issued share capital	Percentage of issued capital held indirectly/directly*		Principal activities
			2002	2001	
Champion Fund Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	Property development
Digital World Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property development
Eternal Bright Construction Engineering Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Building contracting
Future Base Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property development
Gold Profit (Consultants) Services Engineering Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Provision of building repair and maintenance services
Gold Smart (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Subletting
Gold Step (Asia) Limited	Hong Kong	9,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	100%	100%	Property development
Golden Relay Company Limited	Hong Kong	99,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	100%	100%	Property development and investment
Goldwell Property Management Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	Provision of building management service

Notes to the Financial Statements

For the year ended 31 December 2002

15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2002 (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital	Percentage of issued capital held indirectly/directly*		Principal activities
			2002	2001	
Grainview Investment Limited	Hong Kong	99 ordinary shares of HK\$1 each 1 non-voting deferred share of HK\$1 each	100%	100%	Property development
Honest Treasure Limited	Hong Kong	100,000 ordinary shares of HK\$1 each	100%	100%	Provision of accountancy and administration services
Optilink Technologies Company Limited (Equity joint venture)	PRC	Registered capital of RMB10,000,000	63%	63%	Design, manufacturing and sales of dense wavelength division multiplexing system
Pacific Well Realty Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment
Soundwill (BVI) Limited	British Virgin Islands	100,001,000 ordinary shares of HK\$1 each	100%*	100%*	Investment holding
Soundwill (China) Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Investment holding
Soundwill Finance Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Loan financing
Soundwill Treasury Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Central fund management
Soundwill Real Estate Agency Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Provision of real estate agency services

Notes to the Financial Statements

For the year ended 31 December 2002

15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2002 (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital	Percentage of issued capital held indirectly/directly*		Principal activities
			2002	2001	
Soundwill Technology Company Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	100%	Investment holding
Super Keep Investment Limited	Hong Kong	9,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$ 1 each	100%	100%	Property development
The Cosmopolitan Business Consultant Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	100%	Provision of company secretarial and related services
Top Hill Holdings Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	70%	70%	Property development
Vision Telecommunications Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	90%	90%	Investment holding
Vision Telecommunications Holdings Limited	British Virgin Islands	1,000,000 ordinary shares of US\$1 each	90%	90%	Investment holding
Wales Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property development
Wealthy Surplus Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Loan financing
Well Youth Investment Limited	Hong Kong	9,998 ordinary shares of HK\$1 each 2 non-voting deferred shares of HK\$1 each	100%	100%	Property development

Notes to the Financial Statements

For the year ended 31 December 2002

15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2002 (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital	Percentage of issued capital held indirectly/directly*		Principal activities
			2002	2001	
Winsford Enterprises Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	Property development
Wonder Mark Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	100%	Property development
Yield Success Development Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	Property development

16. INTERESTS IN ASSOCIATES

	2002 HK\$'000	2001 HK\$'000
Share of net liabilities	(12,593)	(12,597)
Amounts due from associates	15,533	15,555
Premium on acquisition	8	8
	2,948	2,966

Notes to the Financial Statements

For the year ended 31 December 2002

16. INTERESTS IN ASSOCIATES (Continued)

Particulars of these associates that are accounted for under the equity method as at 31 December 2002 are as follows:

Name of associates	Place of incorporation/ operation	Percentage of issued capital held indirectly		Principal activities
		2002	2001	
Happy Wealth Industries Limited	Hong Kong	30%	30%	Property investment
Wellway Estate Limited	Hong Kong	30%	30%	Investment holding and property investment

17. OTHER INVESTMENT

	2002 HK\$'000	2001 HK\$'000
Unlisted investment, at cost	6,660	6,650
Provision for diminution in value	(6,650)	(6,650)
	10	—

Other investment represents 35% of the issued ordinary share capital of an unlisted company incorporated in Hong Kong.

The investment is classified as other investment because in the opinion of the Directors, the Group has no significant influence over the financial and operating policy decisions of the investee company.

Notes to the Financial Statements

For the year ended 31 December 2002

18. INSTALMENTS RECEIVABLE

	Note	2002 HK\$'000	2001 HK\$'000
Secondary mortgage loans	(a)	1,624	5,807
Long-term receivable	(b)	11,530	12,250
		13,154	18,057
Current portion		9,571	3,004
Non-current portion		3,583	15,053
		13,154	18,057

- (a) The amount represents the principal amounts of secondary mortgage loan to be received by instalments less any provision for doubtful debts. The gross amounts repayable by mortgagors where appropriate include principal and interest accrued on the balance outstanding at contracted rates.
- (b) The amount represents portion of sale proceeds of disposal of investment properties to be received by instalments.

Notes to the Financial Statements

For the year ended 31 December 2002

19. GOODWILL

	HK\$'000
<hr/>	
Cost	
As at 1 January 2002	298,422
Acquisition of subsidiaries	1,200
<hr/>	
As at 31 December 2002	299,622
Amortisation and impairment losses	
As at 1 January 2002	147,250
Amortisation charge for the year	14,921
Impairment losses	137,451
<hr/>	
As at 31 December 2002	299,622
Net book value	
As at 31 December 2002	—
<hr/>	
As at 31 December 2001	151,172
<hr/>	

Goodwill at cost comprises of HK\$298,422,000 arising from the acquisition in 2000 of certain subsidiaries which were principally engaged in the manufacturing and trading of telecommunication-related equipment and HK\$1,200,000 arising in the current year from the acquisition of two subsidiaries in the PRC. In view of the downturn of these businesses, the Directors have assessed the recoverable amount of the goodwill. As a result of this assessment, a provision for impairment of HK\$137,451,000 has been made in the current year.

Notes to the Financial Statements

For the year ended 31 December 2002

20. PROPERTIES FOR SALE

	2002 HK\$'000	2001 HK\$'000
Under development	25,005	26,595
Held for development	10,680	11,480
Completed properties	3,500	3,499
	39,185	41,574

Properties for sale are situated in Hong Kong and are held under long-term leases.

As at balance sheet date, the carrying amount of properties for sale that were stated at net realisable value amounted to HK\$39,185,000 (2001: HK\$41,574,000).

21. INVENTORIES

	2002 HK\$'000	2001 HK\$'000
Raw materials	90	4,755
Work in progress	—	20,819
	90	25,574

As at balance sheet date, all of the inventories were carried at net realisable value (2001: HK\$25,574,000).

22. DEBTORS, PREPAYMENTS AND DEPOSITS

As at balance sheet date, trade debtors included in debtors, prepayment and deposits amounted to HK\$6,076,000 (2001: HK\$6,424,000). The aging of these trade debtors is set out below:

	2002 HK\$'000	2001 HK\$'000
0–30 days	1,911	1,937
31–90 days	951	1,877
Over 90 days	3,214	2,610
	6,076	6,424

Notes to the Financial Statements

For the year ended 31 December 2002

23. DEPOSITS ON ACQUISITION OF PROPERTIES

Included in deposits on acquisition of properties is the net carrying amount of deposits of HK\$5,000,000 (2001: HK\$16,641,000) arising from legal proceedings involving a wholly owned subsidiary of the Company. Further details are set out in note 39 to the financial statements.

24. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

As at balance sheet date, trade creditors of HK\$14,556,000 (2001: HK\$15,276,000) included in creditors, accruals and deposits received were all within 30 days.

25. RESTRICTED BANK BALANCES

Restricted bank balances represented bank balances operated by bank creditors for depositing and distributing rental under assignment.

26. PLEDGE OF ASSETS

As at balance sheet date, properties of the Group with an aggregate net book value of HK\$1,702,740,000 (2001: HK\$2,002,792,000) and bank deposits of nil (2001: HK\$5,840,000) were pledged to secure bank loans of HK\$1,075,546,000 (2001: HK\$1,327,582,000).

27. BORROWINGS

Group

	2002	2001
	HK\$'000	HK\$'000
Loans		
Bank loans – secured	1,075,546	1,327,582
Other loans	78,744	93,302
Amount due to ultimate holding company	250,978	236,253
	1,405,268	1,657,137
Obligations under finance leases	107	119
	1,405,375	1,657,256
Less: Current portion due within one year included under current liabilities	(29,241)	(771)
Non-current portion	1,376,134	1,656,485

Notes to the Financial Statements

For the year ended 31 December 2002

27. BORROWINGS (Continued)

Loans of the Group are payable as follows:

	2002			2001		
	Bank loans- secured HK\$'000	Other loans HK\$'000	Due to ultimate holding company HK\$'000	Bank loans- secured HK\$'000	Other loans HK\$'000	Due to ultimate holding company HK\$'000
On demand or within one year	28,014	1,198	—	757	—	—
Within one year not exceeding two years	443,852	—	—	359,024	—	—
Within two years not exceeding five years	603,680	77,546	250,978	796,078	—	—
More than five years	—	—	—	171,723	93,302	236,253
Total	1,075,546	78,744	250,978	1,327,582	93,302	236,253

Bank loans of the Group are secured by certain properties of the Group as set out in note 26. Other loans are unsecured and interest bearing at 19.25% to 24% (2001: 19.25%–24%) per annum.

The amount due to the ultimate holding company is subordinated to bank borrowings. The amount is unsecured, bears interest of Hong Kong Dollars Prime Lending Rate plus 1.75% per annum and will be wholly repayable by 24 March 2005.

Notes to the Financial Statements

For the year ended 31 December 2002

27. BORROWINGS (Continued)

The analysis of the obligations under finance leases is as follows:

	2002 HK\$'000	2001 HK\$'000
Due within one year	63	63
Due in the second to fifth years	100	159
	163	222
Future finance charges on finance leases	(56)	(103)
Present value of finance lease liabilities	107	119
The present value of finance lease liabilities is as follows:		
Due within one year	28	14
Due in the second to fifth years	79	105
	107	119
Less: Portion due within one year included under current liabilities	(28)	(14)
Non-current portion	79	105

Notes to the Financial Statements

For the year ended 31 December 2002

27. BORROWINGS (Continued)

The analysis of the maturities of the Group's borrowings is as follows:

	2002 HK\$'000	2001 HK\$'000
Wholly repayable within five years		
Loans	1,327,721	1,155,859
Obligations under finance leases	107	119
	1,327,828	1,155,978
Not wholly repayable within five years		
Loans	77,546	501,278
	1,405,374	1,657,256

Company

	2002 HK\$'000	2001 HK\$'000
Amount due to ultimate holding company	250,978	236,253
	250,978	236,253

Notes to the Financial Statements

For the year ended 31 December 2002

28. DEFERRED TAXATION

The amount of the unrecognised deferred tax credit for the year is as follows:

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:		
Tax losses	18,413	13,887
Others	10	229
	18,423	14,116

As at 31 December 2002, the amount of the unrecognised deferred tax assets is as follows:

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:		
Tax losses	87,934	69,521
Others	291	281
	88,225	69,802

Notes to the Financial Statements

For the year ended 31 December 2002

29. SHARE CAPITAL

	2002	2001
	HK\$'000	HK\$'000
Authorized:		
50,000,000,000 (2001: 5,000,000,000) ordinary shares of HK\$0.01 (2001: HK\$0.1) each	500,000	500,000
Issued and fully paid:		
3,116,402,151 (2001: 3,116,402,151) ordinary shares of HK\$0.01 (2001: HK\$0.1) each	31,164	311,640

Pursuant to a special resolution passed on 22 July 2002:

- (i) the nominal value of each of the issued shares in the capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each so that the issued share capital was reduced from HK\$311,640,000 by HK\$280,476,000 to HK\$31,164,000;
- (ii) the Company's share premium account was reduced by the entire amount of HK\$1,061,337,000 (note 32);
- (iii) all of the authorised but unissued share capital of the Company was cancelled and immediately thereafter, the authorized share capital was increased to HK\$500,000,000 by the creation of 46,883,597,849 new shares in the capital of the Company of HK\$0.01 each and;
- (iv) the credit arising from the capital reduction of HK\$280,476,000 and the share premium reduction of HK\$1,061,337,000 were applied to set off against the accumulated losses of the Company (note 32) and the Group as set out in the Consolidated Statement of Changes in Equity on page 29.

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEMES

The Company operates 2 share option schemes adopted on 25 February 1997 (the "1997 Share Option Scheme") and 22 July 2002 (the "2002 Share Option Scheme") (collectively the "Schemes") respectively.

The Stock Exchange introduced changes to the provisions of the Chapter 17 of the Listing Rules in relation to share option schemes. In order to comply with the new provisions, the 1997 Share Option Scheme was terminated on 22 July 2002 when the 2002 Share Option Scheme was adopted. Since then, no further share option may be granted under the 1997 Share Option Scheme. However, in respect of the outstanding share options granted under the 1997 Share Option Scheme, the 1997 Share Option Scheme shall remain in force and such outstanding share options shall continue to be subject to the provisions of the 1997 Share Option Scheme and the new provisions of Chapter 17 of the Listing Rules which took effect on 1 September 2001.

The principal terms of the Schemes are set out as follows:

Purpose of the Schemes

The purpose of the Schemes is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Eligible participants of the Schemes

1997 Share Option Scheme

Any employee of the Company or its subsidiaries and any executive director of the Company or its subsidiaries.

2002 Share Option Scheme

(i) any executive or non-executive directors of the Group or any employees of the Group; (ii) any discretionary object of a discretionary trust established by any employee, executive or non-executive director of the Group; (iii) any consultant(s) and professional adviser(s) to the Group; (iv) Chief Executive (as defined under the Listing Rules) or Substantial Shareholder (as defined under the Listing Rules) of the Company; (v) Associates (as defined under the Listing Rules) of Director, Chief Executive or Substantial Shareholder of the Company; and (vi) employees of the Substantial Shareholder.

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEMES (Continued)

Total number of securities issuable

1997 Share Option Scheme

The 1997 Share Option Scheme has been terminated and no further share options may be granted thereunder.

2002 Share Option Scheme

The total number of shares which may be issued upon exercise of all share options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the 2002 Share Option Scheme provided that share options lapsed will not be counted for the purpose of calculating such 10% limit. As at the date of this annual report, the total number of shares available for issue under the 2002 Share Option Scheme was 271,140,215 representing approximately 8.7% of the Company's shares in issue as at that date.

Under the 2002 Share Option Scheme, the Company may obtain a fresh approval from its shareholders in general meeting to refresh the above mentioned 10% limit. In such event, the total number of shares in respect of which share options may be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of such approval provided that share options previously granted under the 2002 Share Option Scheme (including those outstanding, cancelled, lapsed or exercised share options) will not be counted for the purpose of calculating such 10% limit.

Notwithstanding anything hereinbefore contained and subject to the maximum entitlement of each participant hereinafter mentioned, the maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such other higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEMES (Continued)

Maximum entitlement of each employee/participant

1997 Share Option Scheme

No option may be granted to any one Employee (as defined in the 1997 Share Option Scheme) which, if exercised in full, would result in such Employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him or her would exceed 25% of the aggregate number of shares for the time being issued and issuable under the 1997 Share Option Scheme.

2002 Share Option Scheme

Unless separately approved by the shareholders of the Company in general meeting with the particular Participant (as defined in the 2002 Share Option Scheme) and his or her associate (as defined under the Listing Rules) abstaining from voting, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Period to take up share options and minimum period to hold before exercise

Under the Schemes, the period within which the shares must be taken up under a share option and the minimum period, if any, for which a share option must be held before it can be exercised are to be decided by the Directors of the Company upon granting the relevant share options. Details of such information (if any) relating to the outstanding share options are set out below.

Amount payable to take up share options and time to accept offer

Under the Schemes, an offer for the granting of share options shall be accepted within 28 days from the offer date and by way of payment of a consideration of HK\$1.00.

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEMES (Continued)

Exercise price

1997 Share Option Scheme

The exercise price shall be a price determined by the board of directors of the Company and shall be the higher of:

- (i) a price not less than 80% of the average of the closing prices of the shares quoted on the Stock Exchange for the five trading days immediately preceding the offer date;
- (ii) the nominal value of the shares.

2002 Share Option Scheme

The exercise price shall be a price determined by the board of directors of the Company and shall be at least the higher of:

- (i) the closing price of the shares quoted on the Stock Exchange on the offer date;
- (ii) a price being the average of the closing prices of the shares as quoted on the Stock Exchange for the five trading days immediately preceding the offer date;
- (iii) the nominal value of the shares.

Life of the Schemes

The Schemes have a life of 10 years from their respective adoption dates.

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEMES (Continued)

As at the balance sheet date, there were (i) 24,600,000 outstanding options granted to several Directors; and (ii) 15,900,000 outstanding options granted to various employees of the Group. Details of the said outstanding options are as follows:

Name of grantee	Date of grant	Exercise price	Period within which option can be exercised	As at 1 January 2002	Number of options		As at 31 December 2002
					granted during the year	lapsed/re-classified during the year	
Directors							
Foo Kam Chu, Grace	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	3,000,000	—	3,000,000	—
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	3,500,000	—	—	3,500,000
	2 January 2001	HK\$0.100 ¹	2 July 2001 to 24 February 2007	3,800,000	—	—	3,800,000
Leung Yeuk Kuk, Joseph	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	1,000,000	—	1,000,000	—
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	2,000,000	—	—	2,000,000
	2 January 2001	HK\$0.100 ¹	2 July 2001 to 24 February 2007	2,500,000	—	—	2,500,000
Liu Guoyaun	2 January 2001	HK\$0.100 ¹	2 July 2001 to 24 February 2007	3,800,000	—	—	3,800,000
Kwong Che Keung, Gordon	2 January 2001	HK\$0.100 ¹	2 July 2001 to 24 February 2007	2,000,000	—	2,000,000 ⁴	—
Chan Wai Ling	2 January 2001	HK\$0.100 ¹	2 July 2001 to 24 February 2007	3,000,000	—	—	3,000,000

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEMES (Continued)

Name of grantee	Date of grant	Exercise price	Period within which option can be exercised	As at 1 January 2002	Number of options		As at 31 December 2002
					granted during the year	lapsed/re-classified during the year	
Tse Chun Kong, Thomas	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	2,000,000	—	2,000,000	—
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	2,000,000	—	—	2,000,000
	2 January 2001	HK\$0.100 ¹	2 July 2001 to 24 February 2007	2,500,000	—	—	2,500,000
Kwan Chai Ming	1 June 2000	HK\$0.248	1 June 2001 to 24 February 2007	1,000,000	—	—	1,000,000
	2 January 2001	HK\$0.100 ¹	2 January 2002 to 24 February 2007	500,000	—	—	500,000
Other Employees	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	3,000,000	—	3,000,000	—
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	3,500,000	—	—	3,500,000
	1 June 2000	HK\$0.248	1 December 2000 to 24 February 2007	1,500,000	—	1,000,000 ⁵	500,000
	2 January 2001	HK\$0.100 ¹	2 July 2001 to 24 February 2007	12,200,000	—	2,800,000 ^{5, 6}	9,400,000
	14 June 2002	HK\$0.100 ^{2, 3}	14 June 2002 to 24 February 2007	—	2,500,000	—	2,500,000
				52,800,000	2,500,000	14,800,000	40,500,000

Notes:

1. The exercise price was adjusted to HK\$0.05936 following the capital re-organization of the Company effective on 23 July 2002;
2. The exercise price was adjusted to HK\$0.051 following the capital re-organization of the Company effective on 23 July 2002;
3. The closing market price per share on the trading date immediately preceding the date on which the share options were granted was HK\$0.050;
4. Mr. Kwong Che Keung, Gordon resigned from his directorship during the year and the share options previously granted to him became lapsed;

Notes to the Financial Statements

For the year ended 31 December 2002

30. SHARE OPTION SCHEMES (Continued)

5. One of the employees was appointed as a director of the Company during the year and the share options granted to him is re-classified as share options granted to director;
6. Several employees resigned during the year and the share options granted to them became lapsed;
7. None of the share options granted was exercised during the year.

31. SHARE WARRANTS

On 15 November 2000, a total 184,381,339 units of unlisted warrants (the "Unlisted Warrants") were granted by the Company to the Group's bankers pursuant to the Debt Restructure Agreement. Each of the Unlisted Warrants entitled the warrant-holder to subscribe for one share of the Company (nominal value of HK\$0.10 each at that time) at the lower of the following prices within the period of one year from 31 January 2002:

- (i) HK\$0.249; or
- (ii) 80% of the average closing price of the shares of the Company quoted by the Stock Exchange for the ten trading days immediately prior to 31 January 2002.

But in any event not less than HK\$0.10.

The Company has guaranteed the bankers a minimum return on the exercise of the Unlisted Warrants. During the subsisting exercisable period, no Unlisted Warrant was exercised and all the Unlisted Warrants lapsed on 31 January 2003. A provision for charges arising from the un-exercised Unlisted Warrants was raised at 31 December 2002 amounting to HK\$8,813,000 (note 7).

Notes to the Financial Statements

For the year ended 31 December 2002

32. RESERVES**Group**

	2002 HK\$'000	2001 HK\$'000
Share premium (<i>note (a)</i>)	–	1,061,337
Investment property revaluation reserve (<i>note (b)</i>)	695,011	463,722
Accumulated losses	(415,739)	(1,314,567)
Special reserve (<i>note (c)</i>)	10,030	10,030
	289,302	220,522

(a) Share premium represents the excess of consideration received over the par value of shares issued.

(b) The investment property revaluation is set up and dealt with in accordance with the accounting policies adopted for the revaluation of investment properties.

(c) The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company in exchange for the nominal value of the share capital of the subsidiaries pursuant to the Group's re-organisation in 1997.

Company

	Share premium (Note (a)) HK\$'000	Contributed surplus (Note (b)) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2001	1,061,337	2,228,856	(949,973)	2,340,220
Loss for the year	–	–	(2,191,062)	(2,191,062)
As at 31 December 2001	1,061,337	2,228,856	(3,141,035)	149,158
Capital reduction (<i>note 29(ii)</i>)	(1,061,337)	–	1,341,813	280,476
Loss for the year	–	–	(167,263)	(167,263)
As at 31 December 2002	–	2,228,856	(1,966,485)	262,371

(a) Share premium represents the excess of consideration received over the par value of share issued.

Notes to the Financial Statements

For the year ended 31 December 2002

32. RESERVES (Continued)

Company (Continued)

(b) The contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of Luck Spark Limited (a subsidiary) and the value of the net underlying assets of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to the shareholders under certain circumstances. However, the Company cannot declare or pay a dividend or make a distribution out of contribution surplus if:

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

33. DIRECTORS' AND EMPLOYEES' REMUNERATION

Details of the remuneration paid by the Group to the directors and the five highest paid individuals (including directors and employees) for the year are as follows:

(a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Fees		
Executive directors	—	—
Non-executive directors	60	60
	60	60
Other emoluments		
Salaries and other benefits	3,501	2,711
Contributions to defined contribution retirement scheme	63	51
	3,564	2,762

Notes to the Financial Statements

For the year ended 31 December 2002

33. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)**(a) Directors' emoluments (Continued)**

The emoluments of the directors were within the following bands:

	2002	2001
	Number of	Number of
	Directors	Directors
HK\$Nil–HK\$1,000,000	8	7
HK\$1,000,001–HK\$1,500,000	1	1

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included two (2001 : one) directors of the Company, details of those emoluments are set out above. The emoluments of the remaining three (2001 : four) individuals were as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other benefits	2,078	3,320
Contributions to defined contribution retirement scheme	30	42

The emoluments of each of these remaining three (2001 : four) individuals were within the band of nil to HK\$1,000,000.

Notes to the Financial Statements

For the year ended 31 December 2002

34. DEFINED CONTRIBUTION RETIREMENT SCHEME

The Group has joined a mandatory provident fund scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payables in future years.

The defined contribution retirement scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable by the Group at the rates specified in the rules of the scheme.

Employees in the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 3% to 8% of the employee payroll to the scheme to fund the retirement benefits to the employees. The Group has no further liability in respect of the retirement benefit of the employees of the PRC subsidiaries.

The details of the retirement benefits scheme contributions for the Directors and employees which have been dealt with in the income statement of the Group for the year, are as follows:

	2002	2001
	HK\$'000	HK\$'000
Gross scheme contributions	416	498

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For the year ended 31 December 2002

35. DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

	2002 HK\$'000
Net assets disposed of:	
Investment properties	300,000
Debtors, prepayment and deposits	1,045
Bank balances and cash	7,524
Creditors and accruals	(13,181)
Taxation	(100)
	295,288
Gain on deemed disposal of interest in a subsidiary	4,712
Consideration	300,000
Satisfied by:	
Cash	300,000

Analysis of the net cash inflow of cash and cash equivalents in respect of the deemed disposal of interest in a subsidiary is as follows:

	2002 HK\$'000
Cash and cash equivalents disposed of:	
Bank balances and cash	(7,524)
Cash consideration received	300,000
	292,476

Notes to the Financial Statements

For the year ended 31 December 2002

36. RELATED PARTY TRANSACTIONS

Interest accrued on amount due to ultimate holding company, amounted to HK\$14,725,000 (2001: HK\$18,783,000) during the year.

The above related party transaction was, in the opinion of the directors, carried out in the ordinary course of business.

37. OPERATING LEASE ARRANGEMENTS

The Group leases out all its investment properties under operating leases with average lease terms of 3 years. The future aggregate minimum rental receivable under non-cancelable operating leases are as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	65,594	77,293
In the second to fifth years inclusive	64,643	79,196
	130,237	156,489

38. CAPITAL COMMITMENTS

	2002 HK\$'000	2001 HK\$'000
Commitments in respect of capital contribution to subsidiaries in the PRC	34,000	—

Notes to the Financial Statements

For the year ended 31 December 2002

39. CONTINGENT LIABILITIES

Legal proceedings on properties

- (a) A property related proceedings relating to the purchase of certain properties in Tuen Mun as disclosed in the Company's 2001 Annual Report was finalized during the year. According to a judgement dated 3 December 2001, it was ordered by the court that the relevant agreements be rescinded and the deposit of HK\$33,000,000 has been refunded. The appeal by the plaintiff against the subsidiary of the Company was dismissed by consent.
- (b) Another property related proceedings relating to the purchase of certain properties in Yuen Long by another subsidiary of the Company is still under progress. In such transaction, the said subsidiary has already paid a deposit of HK\$65,000,000. The transaction has fallen through and the said deposit of HK\$65,000,000 has been forfeited by the Vendor. According to the legal advice taken by the Company, the shareholders of such subsidiary would not incur any further liability apart from costs.
- (c) As at balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee for banking facilities utilised by subsidiaries amounting to HK\$829,913,000 (2001: HK\$1,325,124,000).

40. POST BALANCE SHEET EVENTS

On 4 April 2003, the capital re-organization which comprises the followings in relation to the capital of the Company was effected:

- (i) every 50 issued ordinary shares of HK\$0.01 each was consolidated into one issued ordinary share of HK\$0.50 each (the "Issued Share Consolidation");
- (ii) following the Issued Share Consolidation, the paid up capital and par value of the issued ordinary shares was reduced from HK\$0.50 to HK\$0.10 (the "Capital Reduction");
- (iii) the amount arising from the cancellation of the capital pursuant to the Capital Reduction of HK\$24,931,000 was credited to the contributed surplus account;
- (iv) following the Capital Reduction, every 10 authorized but unissued shares of HK\$0.01 each was consolidated into one authorized but unissued ordinary share of HK\$0.10 each.

Notes to the Financial Statements

For the year ended 31 December 2002

41. COMPARATIVE FIGURES

As explained in note 2(a) certain comparative figures have been reclassified to conform to the current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 24 to 76 were approved by the board of directors on 16 April 2003.