

Notes to the Financial Statements

For the Year Ended 31st December, 2002

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

On 22nd October, 2001, the former associate, Magnificent Estates Limited (“Magnificent”), became a subsidiary of the Company following the acquisition by the Group of an additional 1.98% interest in Magnificent through the conversion of the convertible bonds issued by Magnificent. Magnificent is a public limited company incorporated in Hong Kong and its shares are listed on the Hong Kong Stock Exchange. At 31st December, 2001, the Company and its subsidiaries together held a total of approximately 51.01% interest in Magnificent.

On 14th November, 2002, following the mandatory conversion of the convertible bonds of Magnificent, the Company’s beneficial interest in the issued capital of Magnificent was further increased by 14.22% to 65.23%.

The Group is engaged in the investment and operation of hotel and furnished suites, property investment, property development and trading, securities investment and trading, and treasury operations.

Shun Ho Resources Holdings Limited (“Shun Ho Resources”), an intermediate holding company of the Company, is a public limited company incorporated in Hong Kong whose shares are listed on the Hong Kong Stock Exchange. The directors consider the Company’s ultimate holding company to be Trillion Resources Limited, an international business company incorporated in the British Virgin Islands.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the introduction of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods.

Foreign currencies

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash flow statements

Under SSAP 15 (Revised) “Cash Flow Statements”, cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid, which was previously presented under a separate heading, is classified as financing cash flows. Interest and dividend received are separately disclosed under operating activities. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude cash balances held for investment purposes and short-term loans that are financing in nature. The re-definition of cash and cash equivalents resulted in a restatement of the comparative amounts shown in the cash flow statement.

Employee benefits

In the current period, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements in this respect. However, a provision for employee’s entitlements to annual leave of approximately HK\$1,895,000 was made in the current year following the adoption of this SSAP.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Magnificent became a subsidiary of the Company on 22nd October, 2001. Prior to becoming a subsidiary of the Company, the results of Magnificent were accounted for under the equity method based on its published financial information made up to 30th September. The consolidated financial statements for the year ended 31st December, 2001 incorporate the consolidated results of Magnificent for the period from 1st October, 2000 to 21st October 2001 on an equity basis and the subsequent period to 31st December, 2001 on a consolidation basis.

On consolidation of Magnificent, the shares in the Company held by a subsidiary of Magnificent have been accounted for using the treasury stock method whereby consolidated shareholders' equity is reduced by the carrying value of the shares in the Company held by the said subsidiary at the date when Magnificent became a subsidiary of the Company.

Goodwill/negative goodwill

Goodwill/negative goodwill arising on consolidation represents the excess/shortfall of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill/negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill will be credited to the income statement at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions on or after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisitions on or after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income over the expected useful life of the identifiable assets acquired.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

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

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

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Investment properties

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

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Hotel property and furnished suites

Hotel properties and furnished suites held for short lease purposes are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase arising on the revaluation of these properties is credited to other property revaluation reserve except that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of the hotel property and furnished suites is dealt with as an expense to the extent that it exceeds the balance on this reserve.

On disposal of the hotel property or the furnished suites, the balance on other property revaluation reserve attributable to the property disposed is transferred to retained profits.

It is the Group's practice to maintain its hotel property and furnished suites in a continual state of sound repairs and to make improvements from time to time, accordingly the directors consider that depreciation is not necessary as the property maintains a residual value at least equal to its carrying value. Repairs and maintenance expenditures are charged to the income statement in the year in which they are incurred.

Other property, plant and equipment

Other property, plant and equipment are stated at cost or valuation less depreciation where appropriate and any identified impairment losses. Land and buildings reclassified from investment properties are stated at the carrying value at the time when the reclassification took place, less subsequent depreciation.

No depreciation is provided on property under construction. Hotel operating equipment included in furniture, fixtures and equipment is capitalised at historical cost and all subsequent replacements are expensed in the period in which they are incurred. Depreciation is provided to write off the cost or valuation of other property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	2% per annum
Furniture, fixtures and equipment	20% – 33 $\frac{1}{3}$ % per annum
Motor vehicles and vessels	20% per annum

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

Property under development

Property under development is stated at cost less any identified impairment loss. Cost includes the cost of land, development expenditure, borrowing costs capitalised and other attributable expenses incurred during development.

Inventories

Inventories, representing stocks of food, beverages and general stores, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less selling expenses.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties for sale

Properties for sale are carried at the lower of cost and net realisable value. Cost includes purchase consideration and other attributable expenses. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

Operating leases

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

Rentals payable (receivable) under operating leases are charged (credited) to income statement on a straight line basis over their respective lease terms.

Convertible bonds

Convertible bonds are separately disclosed and regarded as a liability. The expenses incurred directly in connection with the issue of the bonds are deferred and are amortised over the period of the bonds so as to produce a constant periodic rate of charge on the carrying amount of the bonds.

Impairment

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

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Capitalisation of borrowing costs

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

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

Revenue recognition

Income from the operation of hotel and furnished suites is recognised when services are rendered.

Rental income in respect of properties under operating leases is recognised and credited to the income statement on a straight line basis over the relevant lease term.

Sales of properties are recognised on the execution of a binding sales agreement.

Sales of investments are recognised when the sale becomes unconditional.

Income from portal site operations is recognised when the relevant services are rendered.

Interest income from bank deposits and loans receivable is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend from investments is recognised when the Group's rights to receive payment have been established.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

4. TURNOVER

Turnover represents the aggregate of income from operation of hotel and furnished suites, property rentals, proceeds from sale of properties and trading securities, interest and dividend income and income from portal site operation, and is analysed as follows:

	THE GROUP	
	2002 HK\$	2001 HK\$
Income from operation of hotel and furnished suites	41,189,172	6,500,126
Property rentals	24,864,419	10,188,030
Proceeds from sale of properties	117,246,663	–
Proceeds from sale of trading securities	7,165,750	–
Interest income	4,178,646	6,766,324
Dividend income	744,457	687,788
Income from portal site operation	–	149,888
	<u>195,389,107</u>	<u>24,292,156</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The businesses based on which the Group reports its primary segment information are as follows:

Hospitality services	–	investment and operation of hotel and furnished suites
Property investment	–	property letting
Property development and trading	–	development and trading of properties
Securities investment and trading	–	investment and trading of listed securities

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below:

Revenue and Results

Year ended 31st December, 2002

	Hospitality services <i>HK\$</i>	Property investment <i>HK\$</i>	Property development and trading <i>HK\$</i>	Securities investment and trading <i>HK\$</i>	Other operations <i>HK\$</i>	Consolidated <i>HK\$</i>
REVENUE						
External sales	41,189,172	27,864,419	117,246,663	9,088,853	–	195,389,107
RESULTS						
Segment results	11,375,569	26,463,233	32,862,146	(207,858)	(156,674)	70,336,416
Interest and other income						176,390
Unallocated corporate expenses less amount reimbursed by a related company						(18,206,942)
Profit from operations						52,305,864
Finance costs						(5,339,978)
Share of results of associates	–	3,563,160	–	–	–	3,563,160
Profit before taxation						50,529,046
Taxation						(7,504,405)
Profit before minority interests						43,024,641
Minority interests						(17,898,793)
Net profit for the year						25,125,848

Balance Sheet

At 31st December, 2002

	Hospitality services <i>HK\$</i>	Property investment <i>HK\$</i>	Property development and trading <i>HK\$</i>	Securities investment and trading <i>HK\$</i>	Other operations <i>HK\$</i>	Consolidated <i>HK\$</i>
ASSETS						
Segment assets	568,868,686	645,302,738	121,335,360	45,665,065	239,397	1,381,411,246
Interests in associates	–	93,995,657	–	–	–	93,995,657
						1,475,406,903
Unallocated corporate assets						80,079,259
Negative goodwill	(63,421,197)	(64,940,159)	(13,378,146)	–	–	(141,739,502)
Consolidated total assets						1,413,746,660
LIABILITIES						
Segment liabilities	5,028,168	7,952,788	4,486,053	118,094	5,500	17,590,603
Unallocated corporate liabilities						118,106,448
Consolidated total liabilities						135,697,051

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other Information

Year ended 31st December, 2002

	Hospitality services HK\$	Property investment HK\$	Securities investment and trading HK\$	Other operations HK\$
Capital additions to property, plant and equipment	13,333,219	74,570	–	–
Depreciation of property, plant and equipment	523,979	105,921	–	107,972
Unrealised holding loss on trading securities	–	–	1,423,693	–
Impairment loss on other securities	–	–	782,600	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Revenue and Results

Year ended 31st December, 2001

	Hospitality services HK\$	Property investment HK\$	Property development and trading HK\$	Securities investment and trading HK\$	Other operations HK\$	Consolidated HK\$
REVENUE						
External sales	<u>6,500,126</u>	<u>10,758,681</u>	<u>–</u>	<u>984,872</u>	<u>149,889</u>	<u>18,393,568</u>
RESULTS						
Segment results	<u>2,216,013</u>	<u>9,868,148</u>	<u>–</u>	<u>2,783,848</u>	<u>(151,126)</u>	14,716,883
Interest and other income						6,959,127
Unallocated corporate expenses less amount reimbursed by a related company						(5,242,348)
Profit from operations						16,433,662
Finance costs						(3,195,212)
						<u>13,238,450</u>
Share of results of associates						
Segment results	2,958,608	13,957,688	–	(9,907,054)	–	7,009,242
Unallocated income less expenses						(14,500,579)
						<u>(7,491,337)</u>
Profit before taxation						5,747,113
Taxation						(2,051,443)
Profit before minority interests						3,695,670
Minority interests						(2,974,560)
Net profit for the year						<u>721,110</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance Sheet

At 31st December, 2001

	Hospitality services HK\$	Property investment HK\$	Property development and trading HK\$	Securities investment and trading HK\$	Other operations HK\$	Consolidated HK\$
ASSETS						
Segment assets	486,187,661	783,154,791	176,386,021	49,672,251	353,776	1,495,754,500
Interests in associates	–	97,127,058	–	–	–	97,127,058
						<u>1,592,881,558</u>
Unallocated corporate assets						81,535,373
Negative goodwill	(9,283,290)	(9,844,559)	(2,761,643)	–	–	(21,889,492)
						<u>1,652,527,439</u>
LIABILITIES						
Segment liabilities	2,814,826	7,721,672	170,487	8,368	–	10,715,353
Unallocated corporate liabilities						214,162,548
						<u>224,877,901</u>

Other Information

Year ended 31st December, 2001

	Hospitality services HK\$	Property investment HK\$	Securities investment and trading HK\$	Other operations HK\$
Capital additions to property, plant and equipment	209,338	5,168,683	–	–
Depreciation of property, plant and equipment	103,146	71,387	–	107,972
Impairment loss on other securities	–	–	138,000	–
	<u>–</u>	<u>–</u>	<u>138,000</u>	<u>–</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The following is a geographical analysis of the Group's segment revenue:

	THE GROUP	
	2002	2001
	HK\$	HK\$
Hong Kong	186,022,128	18,393,568
Other regions in the People's Republic of China (the "PRC")	9,366,979	–
	<u>195,389,107</u>	<u>18,393,568</u>

The following is an analysis of segment assets and additions to property, plant and equipment, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Hong Kong	1,310,272,515	1,572,615,585	93,798	253,319
The PRC	103,474,145	79,911,854	13,321,261	5,124,702
	<u>1,413,746,660</u>	<u>1,652,527,439</u>	<u>13,415,059</u>	<u>5,378,021</u>

During the year, the Group acquired an additional interest in a subsidiary, Magnificent Estates Limited, which gave rise to negative goodwill on acquisition of HK\$121,691,727 (2001: HK\$21,889,492). The negative goodwill was attributable to the assets located in Hong Kong and the PRC amounted to HK\$110,971,706 (2001: HK\$20,553,374) and HK\$10,720,021 (2001: HK\$1,336,118) respectively.

6. (LOSS) GAIN ON INVESTMENTS IN SECURITIES

	THE GROUP	
	2002	2001
	HK\$	HK\$
Unrealised holding (loss) gain on trading securities	(1,423,693)	1,936,976
Impairment loss on other securities	(782,600)	(138,000)
	<u>(2,206,293)</u>	<u>1,798,976</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

7. PROFIT FROM OPERATIONS

	THE GROUP	
	2002	2001
	HK\$	HK\$
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	777,151	601,000
Staff costs including directors' emoluments	24,560,535	7,897,790
Depreciation of property, plant and equipment	3,206,573	1,117,160
Realised loss on trading securities	75,332	–
Repairs and maintenance	821,087	796,321
Rental income from investment properties, less outgoings of HK\$2,045,037 (2001: HK\$890,532)	(22,819,382)	(9,297,498)
Dividends from listed securities	(704,430)	(687,788)
Dividends from unlisted investments	(40,027)	–
Interest from debt securities	(1,178,646)	(297,083)
Negative goodwill included in other operating income	(1,841,717)	–

8. FINANCE COSTS

	THE GROUP	
	2002	2001
	HK\$	HK\$
Interests on:		
Bank loans and overdrafts wholly repayable within five years	4,840,987	842,145
Other borrowings wholly repayable within five years	1,167,720	2,523,802
Convertible bonds	99,878	22,055
Bond issue expenses amortised	13,692	2,976
	6,122,277	3,390,978
Less: amount capitalised on property under construction	(782,299)	(195,766)
	5,339,978	3,195,212

Borrowing costs were capitalised to expenditure on qualifying assets during the year at Hong Kong Inter-bank Offer Rate plus a specified margin.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	THE GROUP	
	2002	2001
	HK\$	HK\$
(a) Directors' emoluments		
Directors' fees to independent non-executive directors	90,000	18,750
Other emoluments to executive directors		
Salaries and other benefits	4,508,670	1,337,601
Contributions to provident fund scheme	36,000	9,000
	<u> </u>	<u> </u>
Total emoluments	<u>4,634,670</u>	<u>1,365,351</u>

Emoluments of the directors are within the following bands:

	2002	2001
HK\$	Number of directors	Number of directors
Nil to 1,000,000	3	6
1,000,001 to 1,500,000	2	–
2,000,001 to 2,500,000	1	–
	<u> </u>	<u> </u>

In addition to the amounts disclosed above, during the year ended 31st December, 2001, the executive directors and the independent non-executive directors respectively received management remunerations totalling HK\$2,770,479 and directors' fees totalling HK\$37,500 from a former associate.

(b) Employees' emoluments

Of the five individuals in the Group with the highest emoluments, three (2001: three) were directors of the Company, whose remunerations are included above. The emoluments of the remaining two (2001: two) individuals, whose remunerations are individually not exceeding HK\$1,000,000, are as follows:

	THE GROUP	
	2002	2001
	HK\$	HK\$
Salaries and other benefits	1,079,548	405,613
Contributions to provident fund scheme	24,000	14,160
	<u> </u>	<u> </u>
	<u>1,103,548</u>	<u>419,773</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

10. TAXATION

	THE GROUP	
	2002	2001
	HK\$	HK\$
Hong Kong Profits Tax charge		
Company and subsidiaries	7,108,100	1,584,195
Associates	396,305	467,248
	<u>7,504,405</u>	<u>2,051,443</u>

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the year.

Details of unprovided deferred taxation are set out in note 24.

11. EARNINGS PER SHARE

The calculation of the earnings per share is based on the following data:

	2002	2001
	HK\$	HK\$
Earnings for the purpose of basic earnings per share	25,125,848	721,110
Effect of dilutive potential ordinary shares in respect of convertible bonds issued by Magnificent	–	(398,343)
Earnings for the purpose of diluted earnings per share	<u>25,125,848</u>	<u>322,767</u>

	2002	2001
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	453,337,092	520,787,547
Effect of dilutive potential ordinary shares in respect of convertible bonds issued by Magnificent	–	(36,937,154)
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>453,337,092</u>	<u>483,850,393</u>

The weighted average number of shares adopted for the calculation of the earnings per share for both years presented have been arrived at after eliminating the shares in the Company held by a subsidiary.

The computation of the diluted earnings per share for the year has not assumed the exercise of the warrants issued and share options granted by the Company and Magnificent and the conversion of the convertible bonds of Magnificent, as the exercise prices of the warrants and share options were higher than the average market price for shares for the year and the conversion of the convertible bonds of Magnificent would be anti-dilutive. The computation of the diluted earnings per share for the prior year has not assumed the exercise of the warrants issued and share options granted by the Company and Magnificent, as the exercise prices of the warrants and share options were higher than the average market price for shares for that year.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

12. INVESTMENT PROPERTIES

	THE GROUP	
	2002	2001
	HK\$	HK\$
VALUATION		
At 1st January	700,600,000	266,500,000
Carried by subsidiaries acquired	–	500,600,000
Reclassified to property, plant and equipment	–	(66,500,000)
Revaluation decrease	<u>(56,900,000)</u>	<u>–</u>
At 31st December	<u>643,700,000</u>	<u>700,600,000</u>

An analysis of the investment properties is as follows:

	THE GROUP	
	2002	2001
	HK\$	HK\$
Land and buildings in Hong Kong on land held on		
Long leases	364,000,000	390,000,000
Medium-term leases	<u>279,700,000</u>	<u>310,600,000</u>
	<u>643,700,000</u>	<u>700,600,000</u>

The investment properties of the Group were revalued at 31st December, 2002 on an open market value basis by Dudley Surveyors Limited, an independent firm of property valuers. This valuation gave rise to a revaluation decrease of HK\$56,900,000 (2001: Nil), the Group's share of which has been charged to the investment property revaluation reserve.

At the balance sheet date, the Group's investment properties with an aggregate carrying value of approximately HK\$616,000,000 (2001: HK\$656,000,000) were rented out under operating leases.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings			Furniture, fixtures and equipment HK\$	Motor vehicles and vessels HK\$	Total HK\$
	Hotel property and furnished suites HK\$	Property under construction HK\$	Property for own use HK\$			
THE GROUP						
COST OR VALUATION						
At 1st January, 2002	480,000,000	80,707,206	66,500,000	4,830,363	3,201,773	635,239,342
Additions	–	10,304,396	–	2,999,132	111,531	13,415,059
Reclassification	91,011,602	(91,011,602)	–	–	–	–
Revaluation decrease	(11,011,602)	–	–	–	–	(11,011,602)
At 31st December, 2002	560,000,000	–	66,500,000	7,829,495	3,313,304	637,642,799
DEPRECIATION						
At 1st January, 2002	–	–	147,671	1,144,475	709,432	2,001,578
Provided for the year	–	–	759,153	622,184	1,825,236	3,206,573
At 31st December, 2002	–	–	906,824	1,766,659	2,534,668	5,208,151
NET BOOK VALUES						
At 31st December, 2002	<u>560,000,000</u>	<u>–</u>	<u>65,593,176</u>	<u>6,062,836</u>	<u>778,636</u>	<u>632,434,648</u>
At 31st December, 2001	<u>480,000,000</u>	<u>80,707,206</u>	<u>66,352,329</u>	<u>3,685,888</u>	<u>2,492,341</u>	<u>633,237,764</u>

The following is an analysis of the net book value of the Group's land and buildings:

	2002 HK\$	2001 HK\$
Properties on land under medium-term leases		
Hotel property in Hong Kong	450,000,000	480,000,000
Furnished suites in the PRC	110,000,000	–
	<u>560,000,000</u>	<u>480,000,000</u>
Property under construction in the PRC	–	80,707,206
Property in Hong Kong for own use on long lease land	65,593,176	66,352,329
	<u>625,593,176</u>	<u>627,059,535</u>

The Group's hotel property and furnished suites are carried at their open market value, on an existing use basis, at 31st December, 2002, as valued by Dudley Surveyors Limited, an independent firm of property valuers.

Had the Group's hotel property and furnished suites not been revalued, they would have been included in these financial statements at the historical cost of approximately HK\$571,012,000 (2001: HK\$480,000,000).

The Group's property for own use, which was reclassified from investment properties in the prior year, is carried at its open market value, on an existing use basis, at 31st December, 2000 as valued by Dudley Surveyors Limited, an independent firm of property valuer, less subsequent depreciation.

Other property, plant and equipment are carried at cost less depreciation.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

14. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2002	2001
	HK\$	HK\$
At cost		
At beginning of the year	105,733,291	–
Additions during the year	15,602,069	1,081,508
Carried by subsidiaries acquired during the year	–	104,651,783
	<u> </u>	<u> </u>
At end of the year	<u>121,335,360</u>	<u>105,733,291</u>

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$	HK\$
At cost		
Shares listed in Hong Kong	395,055,658	310,046,042
Unlisted shares	2,250,884	2,250,884
	<u> </u>	<u> </u>
	397,306,542	312,296,926
Amounts due from subsidiaries less allowance	226,799,391	239,006,908
Convertible bonds issued by a subsidiary (note 23)	–	85,009,616
	<u> </u>	<u> </u>
	624,105,933	636,313,450
	<u> </u>	<u> </u>
Market value of listed shares	<u>56,014,492</u>	<u>59,872,037</u>

The amounts due from subsidiaries are unsecured with no fixed repayment terms. In the opinion of the directors, repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as non-current assets.

Particulars regarding the principal subsidiaries at 31st December, 2002 are set out in note 31.

16. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002	2001
	HK\$	HK\$
Unlisted associates		
Share of net assets	6,409,922	5,399,639
Amount due from an associate (note 29 (c))	87,585,735	91,635,735
	<u> </u>	<u> </u>
	93,995,657	97,035,374
	<u> </u>	<u> </u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

16. INTERESTS IN ASSOCIATES (Continued)

	THE COMPANY	
	2002 HK\$	2001 HK\$
Unlisted shares, at cost	—	3

Particulars regarding the associate at 31st December, 2002 are as follows:

Name of associate	Place of incorporation and operation	Effective interest in issued ordinary capital held %	Principal activity
Lucky Country Development Limited	Hong Kong	32.6	Property investment

17. INVESTMENTS IN SECURITIES

	Other securities (Non-current)		Trading securities (Current)	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
THE GROUP				
Listed securities at market value				
Equity securities listed				
In Hong Kong	12,632,324	18,353,553	8,727,332	8,339,301
Outside Hong Kong	1,076,400	1,459,000	—	—
Debt securities listed outside Hong Kong	—	—	21,971,250	20,256,600
Unlisted equity investments	780,000	780,000	—	—
	<u>14,488,724</u>	<u>20,592,553</u>	<u>30,698,582</u>	<u>28,595,901</u>

The Group's non-current equity securities listed in Hong Kong include approximately 20.57% (2001: 20.57%) interests in the Company's holding company, Shun Ho Resources. The activities of Shun Ho Resources and its subsidiaries are the investment and operation of hotel and furnished suites, property investment, property development and trading, securities investment and trading, and treasury operations.

The Company is a subsidiary of Shun Ho Resources. Under the Companies Ordinance, members of the Group who are shareholders of Shun Ho Resources have no right to vote at its meetings. Accordingly, the directors are of the opinion that the Group is not in a position to exercise significant influence over Shun Ho Resources, the results of Shun Ho Resources have therefore not been accounted for on an equity basis.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

18. NEGATIVE GOODWILL

	THE GROUP <i>HK\$</i>
GROSS AMOUNT	
At 1st January, 2002	21,889,492
Arising on acquisition during the year	121,691,727
	<hr/>
At 31st December, 2002	143,581,219
RELEASED TO INCOME	
Amount released for the year and balance at 31st December, 2002	1,841,717
	<hr/>
CARRYING AMOUNT	
At 31st December, 2002	141,739,502
	<hr/> <hr/>
At 31st December, 2001	21,889,492
	<hr/> <hr/>

Note: The negative goodwill arose from the acquisition of an additional interest in Magnificent. The negative goodwill, other than the portion attributable to properties held for sale, is recognised to income on a straight-line basis over the average useful life of the properties carried by Magnificent group for long term purposes of approximately 40 years. Negative goodwill attributable to the properties held for sale will be released to income upon disposal of such properties.

19. TRADE AND OTHER RECEIVABLES

Except for an average credit period of 30 to 60 days granted to travel agencies and customers of the hotel and other property tenants, the Group does not allow any credit period to its customers.

The following is an aged analysis of trade and other receivables at the balance sheet date:

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
0 – 30 days	2,467,840	2,494,462
31 – 60 days	734,643	553,944
Over 60 days	546,323	648,953
	<hr/>	<hr/>
	3,748,806	3,697,359
	<hr/> <hr/>	<hr/> <hr/>

20. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date:

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
0 – 30 days	11,160,647	2,624,348
31 – 60 days	651,427	295,583
Over 60 days	3,477,190	3,828,086
	<hr/>	<hr/>
	15,289,264	6,748,017
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

21. SHARE CAPITAL

	THE GROUP AND THE COMPANY			
	Number of shares		Nominal value	
	2002	2001	2002	2001
			HK\$	HK\$
Ordinary shares of HK\$0.5 each:				
Authorised				
At the beginning and end of the year	<u>640,000,000</u>	<u>640,000,000</u>	<u>320,000,000</u>	<u>320,000,000</u>
Issued and fully paid				
At the beginning and end of the year	<u>537,076,602</u>	<u>537,076,602</u>	<u>268,538,301</u>	<u>268,538,301</u>

There was no change in the share capital of the Company for both years presented.

At 31st December, 2002, 83,739,510 (2001: 83,739,510) issued shares of the Company with an aggregate nominal value of HK\$41,869,755 (2001: HK\$41,869,755) were held by a subsidiary of Magnificent. In accordance with the Companies Ordinance, members of the Group who are shareholders of the Company have no right to vote at meetings of the Company.

Share options

The share option schemes of the Company and Magnificent, which were respectively adopted on 30th June, 1990 and 27th September, 1990 for the primary purpose of providing incentives to directors and eligible employees, expired on 30th June, 2000 and 27th September, 2000 respectively. No options under the share option schemes of the Company and Magnificent were granted, exercised, cancelled or lapsed during either of the financial years presented. Details of share options previously granted which were outstanding during the year are as follows:

(a) The Company

Share options outstanding at 31st December, 2002 and 2001, which were granted on 19th October, 1993, comprised options granted to a director to subscribe for 5,374,691 shares of the Company at a subscription price of HK\$1.11 per share, representing 1.19% of the issued shares of the Company at those dates. Such options were exercisable during the period from 20th October, 1993 to 19th October, 2003. All outstanding options were cancelled subsequent to the balance sheet date.

(b) Magnificent

Share options outstanding at 31st December, 2002 and 2001, which were granted on 29th June, 1994, comprised options granted to a director to subscribe for 43,799,524 ordinary shares of Magnificent at the subscription price of HK\$0.2 per share, representing 0.91% and 1.3% of the issued shares of Magnificent at those dates respectively. Such options were exercisable during the period from 30th June, 1994 to 29th June, 2004. All outstanding options were cancelled subsequent to the balance sheet date.

Warrants

At 31st December, 2002, a total of 644,713,356 units of warrants issued by Magnificent were outstanding, of which 629,361,166 units were held by the Company and a subsidiary. The warrants, which carry an aggregate subscription rights of HK\$22,564,967, entitle the holders thereof to subscribe for shares in Magnificent at the subscription price of HK\$0.035 per share, subject to adjustment, during the three months period commencing from 14th November, 2002.

Subsequent to the balance sheet date, 629,350,706 units of warrants held by the Company and a subsidiary were exercised resulting in the issue of 629,350,706 shares of HK\$0.01 each in Magnificent at a price of HK\$0.035 per share, which resulted in an increase in the shareholdings in Magnificent held by the Company and subsidiaries by 4% to 69.23%. The remaining warrants not exercised had lapsed subsequent to the balance sheet date.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

22. RESERVES

	Share premium HK\$	Capital reserve HK\$	Investment property revaluation reserve HK\$	Other property revaluation reserve HK\$	Securities revaluation reserve HK\$	General reserve HK\$	Negative goodwill HK\$	Retained profits HK\$	Own shares held by a subsidiary HK\$	Total HK\$
THE GROUP										
At 1st January, 2001	118,799,739	4,180,781	211,915,471	86,957,947	(18,880,107)	263,000	10,825,738	275,482,582	-	689,545,151
Share of reserve movements of associates	-	-	(5,193,609)	(27,456,800)	(6,303,815)	-	-	-	-	(38,954,224)
Increase on revaluation of securities, less minority interests	-	-	-	-	402,979	-	-	-	-	402,979
Net profit for the year	-	-	-	-	-	-	-	721,110	-	721,110
Own shares held by a subsidiary	-	-	-	-	-	-	-	-	(15,073,112)	(15,073,112)
At 31st December, 2001	118,799,739	4,180,781	206,721,862	59,501,147	(24,780,943)	263,000	10,825,738	276,203,692	(15,073,112)	636,641,904
Decrease on revaluation, less minority interests										
- properties	-	-	(43,721,690)	(5,617,018)	-	-	-	-	-	(49,338,708)
- securities	-	-	-	-	(2,935,521)	-	-	-	-	(2,935,521)
Impairment loss on securities charged to income	-	-	-	-	399,204	-	-	-	-	399,204
Net profit for the year	-	-	-	-	-	-	-	25,125,848	-	25,125,848
At 31st December, 2002	<u>118,799,739</u>	<u>4,180,781</u>	<u>163,000,172</u>	<u>53,884,129</u>	<u>(27,317,260)</u>	<u>263,000</u>	<u>10,825,738</u>	<u>301,329,540</u>	<u>(15,073,112)</u>	<u>609,892,727</u>
The Group's share of post-acquisition reserves of the associates included in reserves is analysed below:										
At 31st December, 2002	<u>-</u>	<u>-</u>	<u>1,085,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,188,746</u>	<u>-</u>	<u>3,274,266</u>
At 31st December, 2001	<u>-</u>	<u>-</u>	<u>1,085,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,757,475</u>	<u>-</u>	<u>2,842,995</u>
THE COMPANY										
At 1st January, 2001	118,799,739	4,180,781	-	-	-	-	-	203,897,350	-	326,877,870
Net profit for the year	-	-	-	-	-	-	-	1,671,090	-	1,671,090
At 31st December, 2001	118,799,739	4,180,781	-	-	-	-	-	205,568,440	-	328,548,960
Net profit for the year	-	-	-	-	-	-	-	3,459,768	-	3,459,768
At 31st December, 2002	<u>118,799,739</u>	<u>4,180,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>209,028,208</u>	<u>-</u>	<u>332,008,728</u>

Note: The property revaluation reserves are not distributable to shareholders until they are realised. The Company's reserves available for distribution to shareholders at 31st December, 2002 represent retained profits of HK\$209,028,208 (2001: HK\$205,568,440). The directors do not recommend the payment of a dividend in respect of the year (2001: Nil).

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

23. CONVERTIBLE BONDS

	THE GROUP	
	2002	2001
	HK\$	HK\$
Unsecured convertible bonds	–	2,299,988
Less: Unamortised bond issue expenses	–	(13,692)
	<u>–</u>	<u>(13,692)</u>
	<u>–</u>	<u>2,286,296</u>

The convertible bonds (the “Bonds”), which carry interest at 5% per annum payable quarterly in arrears with the last payment due on 14th November, 2002, entitled the holders thereof to convert the Bonds into shares of Magnificent at a conversion price of HK\$0.06 per share during the period from 14th May, 2001 to 14th November, 2002.

During the year, the Bonds with an aggregate principal value of HK\$88,904,164, of which HK\$86,604,176 were held by the Group, were converted into 1,481,736,051 new ordinary shares of HK\$0.01 each in Magnificent at the conversion price of HK\$0.06 per share.

24. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of unprovided deferred tax liabilities (assets) were as follows:

	THE GROUP	
	2002	2001
	HK\$	HK\$
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	4,765,704	4,008,996
Unutilised tax losses	(6,294,687)	(4,827,368)
	<u>(1,528,983)</u>	<u>(818,372)</u>

Deferred tax liabilities (assets) have not been recognised in the financial statements as it is not certain that such taxation will crystallise in the foreseeable future.

Movements in unprovided deferred taxation during the year are as follows:

	THE GROUP	
	2002	2001
	HK\$	HK\$
Deferred tax charge (credit) because of:		
Excess of tax allowances over depreciation	756,708	57,118
Tax losses (arising) utilised	(1,467,319)	18,988
Arising from acquisition of subsidiaries	–	(759,796)
	<u>(710,611)</u>	<u>(683,690)</u>

Deferred tax has not been provided on the valuation increase or decrease arising on the revaluation of properties in Hong Kong and other securities held for long term investment purposes as profits or losses arising on disposal of these assets would not be subject to taxation. Accordingly, the revaluation increase or decrease does not constitute a timing difference for tax purposes.

Deferred tax has not been provided on the valuation increase arising on revaluation of property in the PRC as it is not expected that the potential deferred taxation liability will crystallise in the foreseeable future.

The Company had no significant unprovided deferred taxation at the balance sheet date.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

25. ACQUISITION OF SUBSIDIARIES

On 14th November, 2002, the Group acquired an additional 14.22% of the issued ordinary shares of its subsidiary, Magnificent, through the exercise of the convertible bonds issued by Magnificent which resulted in a negative goodwill of HK\$121,691,727.

In the prior year, the Group acquired an additional 1.98% of the issued ordinary shares of its former associate, Magnificent, through the conversion of the convertible bonds issued by Magnificent. This acquisition has been accounted for under the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisition is HK\$21,889,492. An analysis of the consolidated assets and liabilities of Magnificent acquired and the cash flows arising on acquisition is as follows:

	<i>HK\$</i>
Consolidated assets and liabilities of Magnificent acquired	
Investment properties	500,600,000
Property, plant and equipment	561,864,027
Property under development	104,651,783
Investments in other securities	35,013,666
Interests in associates	95,786,032
Inventories	420,630
Properties for sale	70,652,730
Investments in trading securities	26,542,042
Trade and other receivables	2,757,218
Deposits and prepayments	1,266,468
Trade balances due from shareholders	198,579
Pledged bank deposits	14,803,242
Bank balances and cash	6,193,757
Trade and other payables	(70,649,452)
Rental and other deposits received	(5,831,200)
Advance from the Company	(94,299,617)
Advance from a director	(23,051,877)
Amount due to an associate	(157,478)
Taxation liabilities	(1,162,683)
Bank loans, secured	(77,399,301)
Bank overdrafts	(486,565)
Convertible bonds	(88,887,527)
	<hr/>
	1,058,824,474
<i>Less: Minority interests</i>	<hr/> (519,107,749)
	<hr/>
	539,716,725
<i>Less: Carrying value of investment in associate</i>	(510,027,233)
<i>Negative goodwill</i>	(21,889,492)
	<hr/>
	7,800,000
	<hr/> <hr/>
SATISFIED BY	
Conversion of convertible bonds	<hr/> <hr/> 7,800,000

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

25. ACQUISITION OF SUBSIDIARIES (Continued)

Net cash inflow arising on acquisition

	<i>HK\$</i>
Bank balances and cash acquired	6,193,757
Bank overdrafts acquired	(486,565)
	<hr/>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>5,707,192</u>

The subsidiaries acquired in the prior year contributed approximately HK\$11,802,000 to the Group's turnover and HK\$3,097,000 to the Group's net profit for that year.

26. PROJECT COMMITMENTS

At the balance sheet date, the Group had outstanding commitments in respect of property development expenditure as follows:

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Contracted but not provided for in the financial statements	<u>25,313,186</u>	<u>10,141,822</u>
Authorised but not contracted for	<u>–</u>	<u>1,853,000</u>

The Company had no material project commitment at the balance sheet date.

27. OPERATING LEASE COMMITMENTS

The Group as lessor

Rental income from investment properties earned during the year is approximately HK\$24,864,000 (2001: HK\$10,188,000). The properties under leases have committed tenants for one to three years without termination options granted to tenants.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases:

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Within one year	16,674,229	23,746,020
In the second to fifth year inclusive	<u>9,431,111</u>	<u>6,491,796</u>
	<u>26,105,340</u>	<u>30,237,816</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

27. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessee

	THE GROUP	
	2002	2001
	HK\$	HK\$
Minimum lease payments paid under operating leases during the year in respect of office premises	<u>198,000</u>	<u>277,500</u>

The Group's commitments at the balance sheet date for future minimum lease payments under non-cancellable operating leases in respect of office premises are insignificant.

28. PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

At the balance sheet date, the bank loan facilities of the Group, which were utilised to the extent of approximately HK\$90 million (2001: HK\$136 million), were secured by the following:

- properties together with related assets with an aggregate carrying book value of approximately HK\$728 million (2001: HK\$554 million);
- pledge of shares in and subordination of loans due from subsidiaries with an aggregate carrying value of approximately HK\$329 million (2001: HK\$177 million);
- assignment of rentals and hotel revenue of a subsidiary; and
- pledge of listed securities and bank deposits held by subsidiaries with a carrying value of approximately HK\$50 million (2001: HK\$55 million) and HK\$3 million (2001: HK\$6 million) respectively.

The facilities secured by the pledge of bank deposits had not been utilised at the balance sheet date.

29. RELATED PARTY TRANSACTIONS

- (a) During the year, the holding company, Shun Ho Resources, made unsecured short-term advances to the Company which carry interest chargeable at Hong Kong Inter-bank Offer Rate ("HIBOR") plus 1% per annum. The advances are repayable on demand. Interest payable by the Company on such advances amounted to HK\$655,396 (2001: HK\$1,402,822) in respect of the year. At the balance sheet date, such advances amounted to HK\$17,676,541 (2001: HK\$28,185,717) remained outstanding.

In addition, the Group had trade balance due from Shun Ho Resources amounted to HK\$295,745 (2001: HK\$170,760) which is unsecured, interest free and repayable on demand.

During the year, fees were charged by the Group to Shun Ho Resources amounted to HK\$75,000 (2001: HK\$150,000, of which HK\$134,375 was accounted for by Magnificent prior to becoming a subsidiary of the Company) for administrative facilities provided on a cost reimbursement basis.

- (b) During the year, a director* of the Company made unsecured short-term advances to the Group which carry interest chargeable at rates ranging from bank fixed deposit rates to HIBOR plus 2% per annum. The advances are repayable on demand. Interest payable by the Group on such advances amounted to HK\$512,323 (2001: HK\$1,788,110, of which HK\$667,643 was accounted for by Magnificent prior to becoming a subsidiary of the Company). Such advances were fully repaid during the year.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

29. RELATED PARTY TRANSACTIONS (Continued)

- (c) During the year, a subsidiary, Claymont Services Limited (“Claymont”), made unsecured advances to its associate, Lucky Country Development Limited, with no fixed repayment terms. Such advances to the extent of HK\$60,000,000 (2001: HK\$60,000,000) carried interest chargeable at the rate of 5% (2001: 5% to 8.5%) per annum with the remaining balance interest free. Interest receivable by Claymont on such advances amounted to HK\$3,000,000 (2001: HK\$4,050,000 of which HK\$3,479,348 was accounted for by Magnificent prior to becoming a subsidiary of the Company). At the balance sheet date, advances due from the associate to the Group amounted to HK\$87,585,735 (2001: HK\$91,635,735) remained outstanding.

* Mr. William Cheng Kai Man

30. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. Assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the subsidiary operating in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contributions.

The total contribution paid or payable under the schemes in respect of the year charged to income statement amounted to HK\$976,083 (2001: HK\$237,160). The forfeited contributions under the Group’s defined contribution pension scheme suspended in prior years are immaterial.

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Paid up issued/registered ordinary capital		Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
	Number of shares	Par value	Directly %	Indirectly %	
Duplexway Limited	2	HK\$1	100	–	Property investment
Good Taylor Limited	2	HK\$1	100	–	Investment holding
Noblesse International Limited (i)	1	US\$1	100	–	Property investment
Shun Ho (Lands Development) Limited (i)	10	US\$1	100	–	Investment holding
Shun Ho Technology Developments Limited	2	HK\$10	100	–	Internet and e-commerce business
South Point Investments Limited (i)	1	US\$1	100	–	Investment holding
Babenna Limited	2	HK\$10	–	100	Investment holding
Claymont Services Limited (i)	1	US\$1	–	100	Investment holding
Gainwell Holdings Limited	4	HK\$1	–	100	Property investment
Harbour Rich Industrial Limited	10,000	HK\$1	–	100	Property development
Houston Venture Limited (i)	1	US\$1	–	100	Investment holding
Joes River Limited	2	HK\$1	–	100	Property investment
Joligance Limited	2	HK\$1	–	100	Investment holding
Longham Investment Limited (i)	1	US\$1	–	100	Investment holding

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Paid up issued/registered ordinary capital		Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
	Number of shares	Par value	Directly %	Indirectly %	
Magnificent Estates Limited	4,835,350,177	HK\$0.01	57.9	7.3	Investment holding and provision of management services
Magnificent International Hotel Limited (formerly Hotel Royale International Limited)	2	HK\$1	–	100	Property investment
Mercury Fast Limited	2	HK\$1	–	100	Securities trading and investment holding
New Champion Developments Limited (i)	1	US\$1	–	100	Vessel leasing
On Sea Limited	2	HK\$1	–	100	Vessel leasing
Pearmon Limited	100	HK\$10	–	100	Property trading
Shanghai Shun Ho (Lands Development) Limited (i)	1	US\$1	–	100	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. (ii)	Registered capital	US\$4,950,000	–	100	Property investment
Shun Ho Capital Properties Limited (i)	1	US\$1	–	100	Investment holding
Shun Ho Real Estate Limited	2	HK\$1	50	50	Provision of hospitality services
Silver Courage Company Limited	2	HK\$10	–	100	Property investment
Trans-Profit Limited	1,000,000	HK\$1	–	100	Property investment
United Assets Company Limited	2,000,000	HK\$1	–	100	Hotel ownership and investment holding

(i) Incorporated in the British Virgin Islands

(ii) Wholly foreign owned enterprise established and operating in the PRC

The subsidiaries of the Company listed above are incorporated and operating in Hong Kong except as otherwise indicated. Apart from Magnificent Estates Limited which had convertible bonds outstanding during the year, details of which are disclosed in note 23, none of the subsidiaries had any debt securities outstanding at 31st December, 2002 or at any time during the year.

The directors are of the opinion that a complete list of the particulars of all subsidiaries of the Company will be of excessive length and therefore the above list contains only the particulars of subsidiaries which principally affect the results and assets of the Group.