

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 Shun Ho Technology Holdings Limited (“Shun Ho Technology”), also a former associate of the Group, following the acquisition by Shun Ho Technology of an additional 1.98% interest in Magnificent through the conversion of convertible bonds issued by Magnificent. Shun Ho Technology and Magnificent are public limited companies incorporated in Hong Kong and their shares are listed on the Hong Kong Stock Exchange. At 22nd October, 2001, the Company was, directly and indirectly, beneficially interested in approximately 49.5% of the issued share capital of Shun Ho Technology, which in turn beneficially held a 51.01% interest in the issued share capital of Magnificent. As at that date, a subsidiary of Magnificent beneficially held a 15.59% of the issued share capital of Shun Ho Technology. In accordance with the Companies Ordinance, members of Shun Ho Technology who are its subsidiaries have no right to vote at meetings of Shun Ho Technology. As a result, the Company has control over more than one half of the voting rights of Shun Ho Technology and has become its holding company.

On 14th November, 2002, following the mandatory conversion of the convertible bonds of Magnificent, Shun Ho Technology’s 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.

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.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2002

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

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.

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 has become 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. The shares in Shun Ho Technology held by a subsidiary of Magnificent have been accounted for by Shun Ho Technology on the same basis.

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.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill/negative goodwill *(Continued)*

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.

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.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

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.

Property, plant and equipment

Hotel property and furnished suites

Hotel property 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 the 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 or the 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 the 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.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

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 Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

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.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

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 income 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	2001
	HK\$	HK\$
Income from operation of hotel and furnished suites	41,189,172	6,500,126
Property rentals	24,864,419	4,699,979
Sales proceeds of properties	117,246,663	–
Sales proceeds of trading securities	7,165,750	–
Interest income	4,178,646	2,440,482
Dividend income	744,457	687,788
Income from portal site operation	–	20,453
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	195,389,107	14,348,828
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Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

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

Segment information about these businesses is presented below:

Revenue and Results

Year ended 31st December, 2002

	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>41,189,172</u>	<u>27,864,419</u>	<u>117,246,663</u>	<u>9,088,853</u>	<u>–</u>	<u>195,389,107</u>
RESULTS						
Segment results	<u>11,310,426</u>	<u>26,555,574</u>	<u>32,552,370</u>	<u>(220,318)</u>	<u>(156,674)</u>	70,041,378
Interest and other income						276,260
Unallocated corporate expenses						<u>(19,075,061)</u>
Profit from operations						51,242,577
Finance costs						(4,757,254)
Share of results of associates	–	3,564,903	–	–	–	<u>3,564,903</u>
Profit before taxation						50,050,226
Taxation						<u>(7,504,405)</u>
Profit before minority interests						42,545,821
Minority interests						<u>(30,547,145)</u>
Net profit for the year						<u>11,998,676</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, 2002

	Hospitality services HK\$	Property investment HK\$	Property development and trading HK\$	Securities investment and trading HK\$	Other operations HK\$	Consolidated HK\$
ASSETS						
Segment assets	568,868,686	645,302,738	121,335,360	38,175,505	239,397	1,373,921,686
Interests in associates	–	93,995,657	–	–	–	93,995,657
						<u>1,467,917,343</u>
Unallocated corporate assets						80,136,281
Negative goodwill	(61,459,169)	(62,678,503)	(13,050,741)	–	–	<u>(137,188,413)</u>
Consolidated total assets						<u><u>1,410,865,211</u></u>
LIABILITIES						
Segment liabilities	5,028,168	7,952,788	4,486,053	474,433	5,500	17,946,942
Unallocated corporate liabilities						<u>100,764,351</u>
Consolidated total liabilities						<u><u>118,711,293</u></u>

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	–	–	1,436,153	–
Impairment loss on other securities	–	–	782,600	–
	<u>–</u>	<u>–</u>	<u>782,600</u>	<u>–</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

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>5,270,631</u>	<u>–</u>	<u>984,872</u>	<u>20,453</u>	<u>12,776,082</u>
RESULTS						
Segment results	<u>2,216,013</u>	<u>4,624,150</u>	<u>–</u>	<u>2,769,738</u>	<u>(104,971)</u>	9,504,930
Interest and other income						2,513,147
Unallocated corporate expenses						<u>(3,603,920)</u>
Profit from operations						8,414,157
Finance costs						<u>(1,300,112)</u>
						<u>7,114,045</u>
Share of results of associates						
Segment results	1,462,736	9,493,314	–	(4,898,047)	(22,820)	6,035,183
Unallocated income less expenses						<u>(6,274,727)</u>
						<u>(239,544)</u>
Profit before taxation						6,874,501
Taxation						<u>(1,225,302)</u>
Profit before minority interests						5,649,199
Minority interests						<u>(5,159,091)</u>
Net profit for the year						<u>490,108</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	36,869,482	353,776	1,482,951,731
Interests in associates	–	97,127,059	–	–	–	97,127,059
						<u>1,580,078,790</u>
Unallocated corporate assets						81,614,824
Negative goodwill	(6,836,929)	(7,250,290)	(2,033,886)	–	–	<u>(16,121,105)</u>
Consolidated total assets						<u><u>1,645,572,509</u></u>
LIABILITIES						
Segment liabilities	2,814,826	7,721,672	170,487	8,368	–	10,715,353
Unallocated corporate liabilities						<u>197,010,998</u>
Consolidated total liabilities						<u><u>207,726,351</u></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	5,148,233	–	–
Depreciation of property, plant and equipment	103,146	41,587	–	53,986
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
	<i>HK\$</i>	<i>HK\$</i>
Hong Kong	186,022,128	12,776,082
Other regions in the People's Republic of China (the "PRC")	9,366,979	–
	<u>195,389,107</u>	<u>12,776,082</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
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Hong Kong	1,307,129,447	1,565,308,557	93,798	5,104,252
The PRC	103,735,764	80,263,952	13,321,261	253,319
	<u>1,410,865,211</u>	<u>1,645,572,509</u>	<u>13,415,059</u>	<u>5,357,571</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\$122,626,447 (2001: HK\$16,121,105). The negative goodwill was attributable to the assets located in Hong Kong and the PRC amounted to HK\$111,824,085 (2001: HK\$15,137,085) and HK\$10,802,362 (2001: HK\$984,020) respectively.

6. (LOSS) GAIN ON INVESTMENTS IN SECURITIES

	THE GROUP	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Unrealised holding (loss) gain on trading securities	(1,436,153)	1,922,866
Impairment loss on other securities	(782,600)	(138,000)
	<u>(2,218,753)</u>	<u>1,784,866</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	1,006,151	530,000
Staff costs including directors' emoluments	24,645,535	6,994,340
Depreciation of property, plant and equipment	3,206,573	1,033,375
Realised loss on trading securities	75,332	–
Repairs and maintenance	821,087	725,902
Rental income from investment properties, less outgoings of HK\$2,045,037 (2001: HK\$646,481)	(22,819,382)	(4,053,498)
Dividends from listed securities	(704,430)	(687,788)
Dividends from unlisted investments	(40,027)	–
Interest on debt securities	(1,178,646)	(297,083)
Negative goodwill included in other operating income	(1,559,139)	–

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	584,996	628,702
Convertible bonds	99,878	22,055
Bond issue expenses amortised	13,692	2,976
	5,539,553	1,495,878
Less: amount capitalised on property under construction	(782,299)	(195,766)
	4,757,254	1,300,112

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	100,000	20,313
Other emoluments to executive directors		
Salaries and other benefits	4,583,670	1,170,270
Contribution to provident fund scheme	36,000	9,000
	<u> </u>	<u> </u>
Total emoluments	<u>4,719,670</u>	<u>1,199,583</u>

The emoluments of the directors are within the following bands.

HK\$	2002 Number of directors	2001 Number of directors
Nil to 1,000,000	3	6
1,000,001 to 1,500,000	1	–
1,500,001 to 2,000,000	1	–
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\$3,087,810 and directors' fees totalling HK\$42,188 from former associates.

(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	266,580
Contributions to provident fund scheme	24,000	6,000
	<u> </u>	<u> </u>
	<u>1,103,548</u>	<u>272,580</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	255,480
Associates	396,305	969,822
	<u>7,504,405</u>	<u>1,225,302</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	11,998,676	490,108
Effect of dilutive potential ordinary shares in respect of convertible bonds issued by Magnificent	—	(196,940)
Earnings for the purpose of diluted earnings per share	<u>11,998,676</u>	<u>293,168</u>

	2002	2001
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	241,766,050	292,191,238
Effect of dilutive potential ordinary shares in respect of convertible bonds issued by Magnificent	—	(27,613,793)
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>241,766,050</u>	<u>264,577,445</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 Shun Ho Technology 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 Shun Ho Technology 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	–
Carried by subsidiaries acquired	–	700,600,000
Revaluation decrease	(56,900,000)	–
	<u>643,700,000</u>	<u>700,600,000</u>
At 31st December	643,700,000	700,600,000

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 lease	364,000,000	387,000,000
Medium-term leases	279,700,000	313,600,000
	<u>643,700,000</u>	<u>700,600,000</u>

The investment properties of the Group were revalued on 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

	<u>Land and buildings</u>					Total <i>HK\$</i>
	Hotel property and furnished suites <i>HK\$</i>	Property under construction <i>HK\$</i>	Property for own use <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles and vessels <i>HK\$</i>	
THE GROUP						
COST OR VALUATION						
At 1st January, 2002	480,000,000	80,707,206	66,500,000	4,293,782	3,201,773	634,702,761
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	<u>560,000,000</u>	<u>–</u>	<u>66,500,000</u>	<u>7,292,914</u>	<u>3,313,304</u>	<u>637,106,218</u>
DEPRECIATION						
At 1st January, 2002	–	–	147,671	607,894	709,432	1,464,997
Provided for the year	–	–	759,153	622,184	1,825,236	3,206,573
At 31st December, 2002	<u>–</u>	<u>–</u>	<u>906,824</u>	<u>1,230,078</u>	<u>2,534,668</u>	<u>4,671,570</u>
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>
						Furniture, fixtures and equipment <i>HK\$</i>
THE COMPANY						
COST						
At 1st January, 2002 and 31st December, 2002						424,153
DEPRECIATION						
At 1st January, 2002 and 31st December, 2002						<u>(424,153)</u>
NET BOOK VALUES						
At 31st December, 2002 and 31st December, 2001						<u>–</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 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.

14. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2002 HK\$	2001 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>121,335,360</u>	<u>105,733,291</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
At cost		
Shares listed in Hong Kong	–	292,250
Unlisted shares	<u>14,014,802</u>	<u>14,849,416</u>
	14,014,802	15,141,666
Amounts due from subsidiaries less allowance	<u>256,884,304</u>	<u>266,435,814</u>
	270,899,106	281,577,480
Market value of listed shares	<u>–</u>	<u>196,392</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
	<i>HK\$</i>	<i>HK\$</i>
Unlisted associates		
Share of net assets	6,409,922	5,491,324
Amount due from an associate (note 29(b))	<u>87,585,735</u>	<u>91,635,735</u>
	93,995,657	97,127,059

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	16.2	Property investment

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

17. INVESTMENTS IN SECURITIES

	Other securities (non-current)		Trading securities (current)	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
THE GROUP				
Listed securities at market value				
Equity securities listed				
In Hong Kong	5,120,000	5,520,000	8,745,656	8,370,085
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>6,976,400</u>	<u>7,759,000</u>	<u>30,716,906</u>	<u>28,626,685</u>

18. NEGATIVE GOODWILL

	THE GROUP HK\$
GROSS AMOUNT	
At 1st January, 2002	16,121,105
Arising on acquisition during the year	<u>122,626,447</u>
At 31st December, 2002	<u>138,747,552</u>
RELEASED TO INCOME	
Amount released during the year and balance at 31st December, 2002	<u>1,559,139</u>
CARRYING AMOUNT	
At 31st December, 2002	<u>137,188,413</u>
At 31st December, 2001	<u>16,121,105</u>

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.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

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 HK\$	2001 HK\$
0 – 30 days	2,467,840	2,494,462
31 – 60 days	734,643	553,944
Over 60 days	742,959	648,953
	<u>3,945,442</u>	<u>3,697,359</u>

20. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2002 HK\$	2001 HK\$
0 – 30 days	11,501,608	2,868,353
31 – 60 days	651,427	295,583
Over 60 days	3,921,687	4,277,579
	<u>16,074,722</u>	<u>7,441,515</u>

21. SHARE CAPITAL

	THE GROUP AND THE COMPANY			
	Number of shares		Nominal value	
	2002	2001	2002 HK\$	2001 HK\$
Ordinary shares of HK\$0.5 each:				
Authorised				
At the beginning and end of the year	<u>400,000,000</u>	<u>400,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>
Issued and fully paid				
At the beginning and end of the year	<u>304,368,750</u>	<u>304,368,750</u>	<u>152,184,375</u>	<u>152,184,375</u>

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

At 31st December, 2002, 62,602,700 (2001: 62,602,700) issued shares of the Company with an aggregate nominal value of HK\$31,301,350 (2001: HK\$31,301,350) 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.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

21. SHARE CAPITAL (Continued)

Share options

The share option schemes of the Company's subsidiaries, Shun Ho Technology 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 Shun Ho Technology 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) *Shun Ho Technology*

Share options outstanding at 31st December, 2002 and 2001 comprised options granted to a director on 19th October, 1993 to subscribe for 5,374,691 shares of Shun Ho Technology at a subscription price of HK\$1.11 per share, representing 1.19% of the issued shares of Shun Ho Technology 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 comprised options granted to a director on 29th June, 1994 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 Shun Ho Technology 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 issued by Magnificent held by Shun Ho Technology and its 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 Shun Ho Technology 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\$	Investment property revaluation reserve HK\$	Other property revaluation reserve HK\$	Securities revaluation reserve HK\$	Negative goodwill HK\$	Retained profits HK\$	Own shares held by a subsidiary HK\$	Total HK\$
THE GROUP								
At 1st January, 2001	20,067,326	99,280,399	40,843,966	(9,334,325)	3,868,638	184,186,527	–	338,912,531
Share of reserve movements of associates	–	(2,567,693)	(13,574,642)	(3,116,607)	–	–	–	(19,258,942)
Increase on revaluation of securities, less minority interests	–	–	–	199,233	–	–	–	199,233
Net profit for the year	–	–	–	–	–	490,108	–	490,108
Own shares held by a subsidiary	–	–	–	–	–	–	(12,833,553)	(12,833,553)
At 31st December, 2001	20,067,326	96,712,706	27,269,324	(12,251,699)	3,868,638	184,676,635	(12,833,553)	307,509,377
Decrease on revaluation of properties and securities, less minority interests	–	(21,712,191)	(2,789,412)	(198,245)	–	–	–	(24,699,848)
Impairment loss on securities charged to income	–	–	–	198,245	–	–	–	198,245
Net profit for the year	–	–	–	–	–	11,998,676	–	11,998,676
At 31st December, 2002	<u>20,067,326</u>	<u>75,000,515</u>	<u>24,479,912</u>	<u>(12,251,699)</u>	<u>3,868,638</u>	<u>196,675,311</u>	<u>(12,833,553)</u>	<u>295,006,450</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>536,681</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,083,065</u>	<u>–</u>	<u>1,619,746</u>
At 31st December, 2001	<u>–</u>	<u>536,681</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>868,896</u>	<u>–</u>	<u>1,405,577</u>

THE COMPANY

At 1st January, 2001	20,067,326	–	–	–	–	81,273,039	–	101,340,365
Net profit for the year	–	–	–	–	–	187,510	–	187,510
At 31st December, 2001	20,067,326	–	–	–	–	81,460,549	–	101,527,875
Net loss for the year	–	–	–	–	–	(252,858)	–	(252,858)
At 31st December, 2002	<u>20,067,326</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>81,207,691</u>	<u>–</u>	<u>101,275,017</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\$81,207,691 (2001: HK\$81,460,549). 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>2,286,296</u>

The convertible bonds (the “Bonds”), which carry interest at 5 per cent 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 mandatorily 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	(6,347,364)	(4,859,589)
	<u>(1,581,660)</u>	<u>(850,593)</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:		
Difference between depreciation and tax allowances	756,708	(10,420)
Tax losses (arising) utilised	(1,487,775)	7,674
Arising from acquisition of subsidiaries	–	(759,796)
	<u>(731,067)</u>	<u>(762,542)</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

24. UNPROVIDED DEFERRED TAXATION (Continued)

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.

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 conversion of the convertible bonds issued by Magnificent which resulted in a negative goodwill of HK\$122,626,447.

In the prior year, a former associate, Shun Ho Technology, acquired an additional 1.98% of the issued ordinary shares of Magnificent, through the exercise of the convertible bonds issued by Magnificent. As a result, for the reason stated in note 1, the Company has become the holding company of Shun Ho Technology. 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\$14,437,345. An analysis of the consolidated assets and liabilities acquired and the cash flows arising on acquisition is as follows:

	<i>HK\$</i>
Consolidated assets and liabilities acquired	
Investment properties	700,600,000
Property, plant and equipment	628,915,767
Property under development	104,651,783
Investments in other securities	19,940,553
Interests in associates	95,965,184
Inventories	420,630
Properties for sale	70,652,730
Investments in trading securities	26,542,042
Trade and other receivables	5,717,165
Deposits and prepayments	1,425,543
Pledged bank deposits	14,803,242
Bank balances and cash	7,453,678
Trade and other payables	(71,426,297)
Rental and other deposits received	(7,013,510)
Advance from the Company	(31,158,642)
Advance from a director	(41,559,441)
Amount due to an associate	(157,478)
Taxation liabilities	(3,890,685)
Bank loans, secured	(77,399,301)
Bank overdrafts	(745,900)
Convertible bonds	(2,283,320)
	<u>1,441,453,743</u>
Less: Minority interests	(974,378,559)
	<u>467,075,184</u>
Less: Carrying value of investment in associate	(452,637,839)
Negative goodwill	(14,437,345)
	<u><u>—</u></u>

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	7,453,678
Bank overdrafts acquired	<u>(745,900)</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><u>6,707,778</u></u>

The subsidiaries acquired in the prior year contributed approximately HK\$12,662,000 to the Group's turnover, and HK\$5,514,000 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><u>25,313,186</u></u>	<u>10,141,822</u>
Authorised but not contracted for	<u>–</u>	<u>1,853,000</u>

The Company had no material project commitments 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\$4,700,000). 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	<u>16,674,229</u>	23,746,020
In the second to fifth year inclusive	<u>9,431,111</u>	<u>6,491,796</u>
	<u><u>26,105,340</u></u>	<u><u>30,237,816</u></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>238,000</u>	<u>222,500</u>

The Group's commitments at the balance sheet date for future lease payments under non-cancellable operating leases in respect of the 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 an aggregate 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

The Group had the following transactions with related parties:

- (a) 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 Hong Kong Inter-bank Offer Rate plus 2% per annum. The advances are repayable on demand. Interest payable by the Group on such advances amounted to HK\$584,996 (2001: HK\$2,131,727, of which HK\$1,503,025 was accounted for by Shun Ho Technology and Magnificent prior to becoming subsidiaries of the Company). Such advances were fully repaid during the year.
- (b) 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 amounted to HK\$87,585,735 (2001: HK\$91,635,735) remained outstanding.

* Mr. William Cheng Kai Man

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2002

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	
			%	%	
Omnico Company Inc. (i)	1	US\$1	100	–	Investment holding
Trillion Resources Limited (formerly Tiny Whale Investment Limited)	5,000,000	HK\$1	100	–	Securities trading
Shun Ho Technology Holdings Limited	537,076,602	HK\$0.5	–	49.7	Investment holding
Duplexway Limited	2	HK\$1	–	100	Property investment
Good Taylor Limited	2	HK\$1	–	100	Investment holding
Noblesse International Limited (ii)	1	US\$1	–	100	Property investment
Shun Ho (Lands Development) Limited (ii)	10	US\$1	–	100	Investment holding
Shun Ho Technology Developments Limited	2	HK\$10	–	100	Internet and e-commerce business
South Point Investments Limited (ii)	1	US\$1	–	100	Investment holding
Babenna Limited	2	HK\$10	–	100	Investment holding
Claymont Services Limited (ii)	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 (ii)	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 (ii)	1	US\$1	–	100	Investment holding
Magnificent Estates Limited	4,835,350,177	HK\$0.01	–	65.2	Investment holding and provision of management services
Magnificent International Hotel Limited (formerly Hotel Royale International Limited)	2	HK\$1	–	100	Property investment

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 %	
Mercury Fast Limited	2	HK\$1	–	100	Securities trading and investment holding
New Champion Developments Limited (ii)	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 (ii)	1	US\$1	–	100	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. (iii)	Registered capital	US\$4,950,000	–	100	Property investment
Shun Ho Capital Properties Limited (ii)	1	US\$1	–	100	Investment holding
Shun Ho Real Estate Limited	2	HK\$1	–	100	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 investment and investment holding

(i) Incorporated in the Republic of Liberia

(ii) Incorporated in the British Virgin Islands

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

In addition to the percentage shareholding in Shun Ho Technology Holdings Limited disclosed above, approximately 15.59% of the issued share capital of Shun Ho Technology Holding Limited was held by a subsidiary of Magnificent Estates Limited at 31st December, 2002.

All the subsidiaries 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 or assets of the Group.