

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 1. GENERAL

The Company was incorporated in the Cayman Islands on 10 August 1998 with limited liability. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction on 24 May 2000.

The principal activity of the Company is investment holding and those of its subsidiaries are the property development and investment in the People's Republic of China ("PRC").

Particulars of the subsidiaries are as follows:

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
Beijing New Rank Real Estate Development Co., Limited ("BJNR")	Sino-foreign equity joint venture	PRC	US\$9,200,000 Registered	—	99%	Property development and investment
Beijing Zhong Zheng Real Estate Development Co., Limited ("BJCSB")	Sino-foreign co-operative joint venture	PRC	US\$25,000,000 Registered	—	100% (see note 41(c))	Property development
NR (BVI) Holdings Limited	Limited liability company	British Virgin Islands	US\$47,001 Ordinary	100%	—	Investment holding
New Rank (BVI 1) Limited	Limited liability company	British Virgin Islands	US\$11,000 Ordinary	—	100%	Investment holding
New Rank (BVI 2) Limited	Limited liability company	British Virgin Islands	US\$36,000 Ordinary	—	100%	Investment holding
New Rank International Limited	Limited liability company	Hong Kong	HK\$2 Ordinary HK\$5,000,000 Non-voting deferred (note 1)	—	100%	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 1. GENERAL (continued)

Name	Legal form	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Directly	Indirectly	
New Rank Services Limited	Limited liability company	Hong Kong	HK\$2 Ordinary	—	100%	General management
Precise Assets Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Inactive
Sherford Company Limited	Limited liability company	Cayman Islands	US\$3 Ordinary	—	100%	Investment holding
Team Success Management Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Investment holding
Tong Sun Limited	Limited liability company	Western Samoa	US\$1 Ordinary	—	100%	Investment holding
Treasure Star International Limited	Limited liability company	Hong Kong	HK\$2 Ordinary	—	100%	General management
Very Best Investments Limited	Limited liability company	British Virgin Islands	US\$1 Ordinary	—	100%	Inactive

*Notes:*

- 1) The non-voting deferred shares, which are not held by the Group, carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.
- 2) Other than the two PRC subsidiaries, whose place of operations are in the PRC, the place of operation of other subsidiaries are basically in Hong Kong.

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2002*

### 2. BASIS OF PRESENTATION

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately HK\$401 million and deficiency of shareholders' funds of approximately HK\$207 million as at 31 December 2002.

The Group's principal project is the development of a site in Beijing, the PRC, on which an office complex will be developed and which is included in the balance sheet at 31 December 2002 as property under development for sale of HK\$710,307,000 (2001: HK\$623,088,000). The directors propose that the completion of the development project will be financed from existing and new loan facilities from the Group's bankers, from the anticipated monies from pre-sales of office units, and from the funding to be provided in connection with the conditional disposal by the Group of a 49% interest in Tong Sun Limited (the group company which indirectly holds the development project) to an independent third party. The conditions to which the disposal is subject are described in note 19.

However, the Group is dependent upon the continued support of its bankers and creditors. As explained in note 26, the Group has defaulted in respect of the repayment of certain bank loans totalling approximately HK\$92 million (2001: HK\$64 million) and such amounts have become repayable on demand. The remaining bank borrowings of approximately HK\$246 million are due for repayment between August 2003 and December 2004. Moreover, certain creditors of the Group have taken legal action to recover overdue balances amounting to approximately HK\$509 million. Certain of these bankers and creditors have applied to the court in Beijing to freeze certain land and buildings, investment properties and a portion of property under development for sale and bank balances of the Group.

Against this background, the Group is negotiating with its bankers for the rescheduling or extension of existing loan facilities and for the granting of new facilities to partly finance the completion of the development project as explained above. The Group is also negotiating with certain of its creditors for the rescheduling of repayments. Provided that the negotiations with the banks and creditors can be successfully concluded and provided that the disposal of the 49% interest in Tong Sun Limited can be successfully completed, the directors consider that the Group will be able to finance the completion of the development project and to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 3. ADOPTION OF NEW/REVISED 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") 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 presentation of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

#### Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas subsidiaries 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.

### 4. PRINCIPAL ACCOUNTING POLICIES

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

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 31 December each year.

The results of subsidiaries 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.

#### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### Revenue recognition

Revenue is recognised on the following bases:

(i) Sales of properties

Revenue and income arising from sale of completed properties held for sale is recognised upon completion of sale when title passes to the purchaser.

Revenue arising from pre-sale of completed properties under development is based on percentage of completion method. Income arising from the pre-sale of properties under development is recognised when legally binding unconditional sales contracts are signed, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the properties pre-sold during the accounting year is calculated by reference to the proportion of construction costs incurred up to the end of the period to the estimated total construction costs to completion, limited to the amount of sales deposits received with due allowances for contingencies. Receivables for sales transactions financed by the Group are recorded as instalment contract receivables.

(ii) Rental income

Rental income under operating leases is recognised on the accrual basis over the term of the respective leases.

(iii) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on the accrual basis by reference to the principal outstanding and at the interest rate applicable.

Interest income from instalment contract receivables is recognised in the income statement as above, on an accrual basis.

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

(iv) Investment income

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

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 4. PRINCIPAL ACCOUNTING POLICIES (continued)

#### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and accumulated impairment loss.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment loss. Any revaluation increase arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into consideration a residual value of up to 10%, using the straight line method, at the following rates per annum:

Land and buildings	2.5%
Furniture, fixtures and equipment	20% to 33.3%
Motor vehicles	20%

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **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.

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

#### **Property under development**

Property under development for sale is included in current assets at the lower of cost or net realisable value.

Cost of property under development comprises land costs, fees for land use rights and development costs including interest charges and other costs directly attributable to such properties. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to prevailing market conditions, less further costs expected to be incurred to completion and direct selling expenses.

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is 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, such 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.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **Assets held under finance leases**

Assets held under finance leases are capitalised at their fair value on the date of acquisition. The principal portion of the corresponding commitments is shown as obligations of the Group. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases or contracts so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

#### **Operating leases**

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

#### **Borrowing costs**

Interest is expensed as incurred, except for the interest directly attributable to the construction or acquisition of the property under development which is capitalised as part of the cost of that property. Interest is capitalised at the actual interest incurred on the related borrowings up to the date of completion of that property.

All other borrowing costs are charged to income in the period in which they are incurred.

#### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated at the rates ruling 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 rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. All exchange differences arising on consolidation are dealt with in reserves.

#### **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 under the liability method, is recognised as deferred taxation to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### Staff retirement benefits

Cost of staff retirement benefits are charged to the income statement and property under development in the relevant periods in which they are incurred.

### 5. TURNOVER

Turnover represents the aggregate of sales of properties, net of applicable business tax and land appreciation tax, and rental income.

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Sales of properties	—	33,392
Rental income	<u>2,658</u>	<u>3,835</u>
	<u><u>2,658</u></u>	<u><u>37,227</u></u>

#### Land appreciation tax

Land appreciation tax is levied at progressive rates ranging from 30% to 60% on the balance of the proceeds received on transfer of real properties after deducting certain items including consideration paid for acquisition of land use rights, land development costs incurred, construction costs and taxes paid in relation to the transfer of real properties.

#### Business tax

The Group is subject to business tax at 5% on its turnover and other revenue.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is currently organised into two operating divisions — property development and property investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

#### 2002

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>—</u>	<u>2,658</u>	<u>2,658</u>
Results			
Segment results	<u>(22,680)</u>	<u>(57,511)</u>	(80,191)
Other operating income			1,247
Allowance for loan receivable			(5,000)
Unallocated corporate expenses			<u>(26,657)</u>
Loss from operations			(110,601)
Finance costs			<u>(26,739)</u>
Loss before taxation			(137,340)
Taxation			<u>—</u>
Loss after taxation			<u>(137,340)</u>
ASSETS			
Segment assets	<u>736,264</u>	<u>157,867</u>	894,131
Unallocated corporate assets			<u>163,681</u>
Consolidated total assets			<u>1,057,812</u>
LIABILITIES			
Segment liabilities	<u>655,604</u>	<u>98,716</u>	754,320
Unallocated corporate liabilities			<u>510,591</u>
Consolidated total liabilities			<u>1,264,911</u>
OTHER INFORMATION			
Capital additions	114	—	
Depreciation	185	—	
Allowance for accounts receivable	4,190	—	
Deficit arising from revaluation of investment properties	<u>—</u>	<u>55,745</u>	

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### 2001

	<b>Property development</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Revenue	<u>33,392</u>	<u>3,835</u>	<u>37,227</u>
Results			
Segment results	<u>(19,072)</u>	<u>261</u>	(18,811)
Other operating income			47
Unallocated corporate expenses			<u>(39,967)</u>
Loss from operations			(58,731)
Finance costs			<u>(16,433)</u>
Loss before taxation			(75,164)
Taxation			<u>—</u>
Loss after taxation			<u>(75,164)</u>
<b>ASSETS</b>			
Segment assets	<u>666,971</u>	<u>264,565</u>	931,536
Unallocated corporate assets			<u>315,220</u>
Consolidated total assets			<u>1,246,756</u>
<b>LIABILITIES</b>			
Segment liabilities	<u>483,204</u>	<u>143,448</u>	626,652
Unallocated corporate liabilities			<u>621,270</u>
Consolidated total liabilities			<u>1,247,922</u>
<b>OTHER INFORMATION</b>			
Capital additions	289	4,780	
Depreciation	<u>167</u>	<u>—</u>	

No geographical segments information of the Group is shown as the operating business of the Group is solely carried out in Beijing, the PRC and the Group's assets are substantially located in the PRC.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2002*

### **7. OTHER OPERATING INCOME**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	<i>HK\$'000</i>
Interest income	<b>1,247</b>	47
Other income	<b>1,324</b>	—
	<hr/> <b>2,571</b> <hr/>	<hr/> 47 <hr/>

### **8. LOSS ON OTHER INVESTMENT WRITTEN OFF**

In 2001, the directors resolved to terminate the sale and purchase agreement entered into in October 2000 for an acquisition of 17.6% in Beijing Huaxia Information Technology Limited due to the fact that the latter company did not comply with the terms under the agreement. The Group claimed for the repayment of the total deposit of RMB3,200,000 paid. The directors considered that it was appropriate to write off the amount of HK\$1,774,000 which remained unsettled as at 31 December 2001.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 9. LOSS FROM OPERATIONS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	1,126	1,000
Depreciation of property, plant and equipment		
Owned assets	3,128	2,561
Leased assets	136	136
Exchange loss	22	10
Loss on disposal of property, plant and equipment	1,480	4,015
Operating lease rental of premises	2,777	4,255
Staff costs including directors' emoluments (note 11 below)	12,175	16,269
Retirement benefit scheme contributions, including those included in directors' emoluments (note 11 below)	154	982
Total staff costs	12,329	17,251
and after crediting:		
Net rental income less negligible outgoings	2,658	3,835

### 10. FINANCE COSTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Interest on:		
— Bank loans and overdrafts wholly repayable within five years	27,800	17,301
— Late delivery of properties	—	5,267
— Finance leases	29	32
Total borrowing costs	27,829	22,600
Less: Amounts capitalised	(1,090)	(6,167)
	26,739	16,433

Borrowing cost capitalized during the year are calculated by application of a capitalization rate of 6.5% (2001: 6.7%) to expenditure on qualifying assets.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 11. DIRECTORS' EMOLUMENTS

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Directors' fees:		
Executive	—	—
Non-executive	<b>26</b>	217
Independent Non-executive	<b>188</b>	120
	<hr/> <b>214</b> <hr/>	<hr/> 337 <hr/>
Other emoluments (Executive Directors):		
Salaries and other benefits	<b>5,393</b>	6,775
Retirement benefit scheme contributions	<b>13</b>	21
	<hr/> <b>5,406</b> <hr/>	<hr/> 6,796 <hr/>
Total emoluments	<hr/> <b>5,620</b> <hr/>	<hr/> 7,133 <hr/>

Emoluments of Directors were within the following bands:

	<b>2002</b> <b>No. of</b> <b>Directors</b>	2001 No. of Directors
Nil to HK\$1,000,000	<b>7</b>	4
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	—
HK\$3,000,001 to HK\$3,500,000	—	1
	<hr/> <b>9</b> <hr/>	<hr/> 7 <hr/>

No director waived any emoluments in the year ended 31 December 2002 (2001: Nil).

*Note:*

The directors' salaries and other benefits include the operating lease rentals amounting to HK\$711,000 (2001: HK\$818,000) in respect of rented premises provided to directors. The amounts are also included in the minimum lease payments paid in respect of rented premises under note 9 above.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2001: four) were directors of the Company whose emoluments are set out in note 11 above. The emoluments of the remaining one (2001: one) employees were as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	600	3,930
Retirement benefit scheme contributions	12	10
	<u>612</u>	<u>3,940</u>

Their emoluments were within the following bands:

	THE GROUP	
	2002 No. of employees	2001 No. of employees
Nil to HK\$1,000,000	1	—
HK\$3,500,001 to HK\$4,000,000	—	1
	<u>1</u>	<u>1</u>

### 13. TAXATION

#### Income tax

The group companies operating in Hong Kong are subject to profits tax at the rate of 16% (2001: 16%) on estimated assessable profit arising in or derived from Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group has no assessable income for Hong Kong Profits Tax for the years ended 31 December 2002 and 2001.

The group companies operating in the PRC are subject to enterprise income tax at a rate of 33% (2001: 33%). No provision for PRC enterprise income tax has been made as the Group has no assessable income for PRC tax for the year ended 31 December 2002 and 2001.

Details of deferred taxation are set out in note 34.

## **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2002

### **14. LOSS PER SHARE**

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

	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the year	<b><u>137,109</u></b>	<u>74,589</u>
Number of shares		
	<b>2002</b>	2001
Weighted average number of shares for the purposes of basic earnings per share	<b><u>271,758,000</u></b>	<u>265,017,000</u>

The computation of diluted loss per share for 2002 and 2001 does not assume the exercise of the Company's outstanding options as their exercise would result in decrease in loss per share.

### **15. INVESTMENT PROPERTIES**

	<b>THE GROUP</b>
	<b>HK\$'000</b>
At 1 January 2002	260,562
Transfer from land and buildings	10,977
Revaluation decrease	<u>(114,687)</u>
At 31 December 2002	<b><u>156,852</u></b>

Investment properties were revalued at their open market value at 31 December 2002 by Messrs. RHL Appraisal Limited, an independent valuer, on an open market value basis. This valuation gave rise to a revaluation decrease of HK\$114,687,000 (2001: a revaluation increase HK\$36,393,000) out of which HK\$58,942,000 has been dealt with in the investment property revaluation reserve and minority interests and the remaining balance of HK\$55,745,000, being the excess of the deficit over the balance on the attributable investment property revaluation reserve, has been charged to the income statement.

The investment properties are located in Beijing, the PRC and held under medium term lease.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>THE GROUP</b>				
COST OR VALUATION				
At 1 January 2002	105,438	5,099	5,038	115,575
Additions	—	681	—	681
Disposals	—	(2,603)	—	(2,603)
Transfer to investment properties	(11,116)	—	—	(11,116)
Deficit on revaluation	(12,147)	—	—	(12,147)
	<u>82,175</u>	<u>3,177</u>	<u>5,038</u>	<u>90,390</u>
At 31 December 2002	<u>82,175</u>	<u>3,177</u>	<u>5,038</u>	<u>90,390</u>
Comprising:				
At cost	—	3,177	5,038	8,215
At valuation — 2002	<u>82,175</u>	<u>—</u>	<u>—</u>	<u>82,175</u>
	<u>82,175</u>	<u>3,177</u>	<u>5,038</u>	<u>90,390</u>
DEPRECIATION				
At 1 January 2002	—	2,424	4,214	6,638
Provided for the year	2,635	400	229	3,264
Eliminated on disposals	—	(611)	—	(611)
Eliminated on transfer to investment properties	(139)	—	—	(139)
Eliminated on revaluation	(2,496)	—	—	(2,496)
	<u>—</u>	<u>2,213</u>	<u>4,443</u>	<u>6,656</u>
At 31 December 2002	<u>—</u>	<u>2,213</u>	<u>4,443</u>	<u>6,656</u>
NET BOOK VALUES				
At 31 December 2002	<u>82,175</u>	<u>964</u>	<u>595</u>	<u>83,734</u>
At 31 December 2001	<u>105,438</u>	<u>2,675</u>	<u>824</u>	<u>108,937</u>

The land and buildings are located in Beijing, the PRC and held under medium term lease.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2002*

### **16. PROPERTY, PLANT AND EQUIPMENT** *(continued)*

The directors are of the opinion that the carrying values of land and buildings when they were transferred to investment properties were equivalent to their approximately fair value.

The Group's land and buildings have been revalued by Messrs. RHL Appraisal Limited, an independent valuer, on an open market value basis as at 31 December 2002 at a total value of HK\$82,175,000 (2001: HK\$105,438,000). The directors resolved to adopt the valuation in the financial statements for the year ended 31 December 2002.

The net book value of property, plant and equipment included an amount of HK\$262,000 (2001: HK\$398,000) in respect of assets held under finance leases.

Had the land and buildings not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation at HK\$35,043,000 (2001: HK\$42,072,000).

### **17. INVESTMENTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>306,695</b>	306,695
Impairment losses recognised	<b>(283,000)</b>	(53,000)
	<b><u>23,695</u></b>	<u>253,695</u>

Details of the subsidiaries are set out in note 1.

The investment costs in certain subsidiaries have been impaired as these subsidiaries were loss-making.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 18. RESTRICTED CASH

As at 31 December 2002, pursuant to the terms of certain guarantee agreements, cash of approximately HK\$521,000 (2001: HK\$518,000) were designated as guarantee against mortgage facilities provided by the bank to the buyers of the Group's properties. Accordingly, the use of the cash balances is restricted.

### 19. PROPERTY UNDER DEVELOPMENT FOR SALE

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost	<b><u>710,307</u></b>	<u>623,088</u>

The property under development for sale represents a property development project in Beijing, the PRC. The construction work is now temporarily suspended pending the revision of the development plan. It is expected the development will be restarted in July 2003, after the completion of the disposal of 49% in the property development project described below.

During the year, the Group entered into a subscription agreement with an independent third party ("Purchaser") and its holding company, Continental Mariner Investment Company Limited ("CMIC") to dispose of its 49% interest in a wholly-owned subsidiary, Tong Sun Limited, which holds indirectly the above property under development. Under the agreement, the existing holding company of Tong Sun Limited will subscribe for 50 new shares of US\$1 each at par and the Purchaser will subscribe for 49 new shares of US\$1 each for HK\$160,000,000. The Purchaser will also pay to the existing holding company of Tong Sun Limited a procurement fee of HK\$50,000,000. Details of the agreement have been included in the circular of the Company dated 25 September 2002 to the shareholders of the Company. The completion of the agreement shall be subject to, among other things, the satisfactory due diligence inquiry into the subsidiary and feasibility study on the property for development, the Purchaser's approval of business plan, the building plans and other documents as stated in the circular to be submitted by the Group and the approval of the agreement by the shareholders of the Company. The agreement has been approved by the shareholders at the extraordinary general meeting held on 11 October 2002. However, the parties to the agreement agreed to extend several times the date of the fulfillment of all the conditions precedent for completion.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 19. PROPERTY UNDER DEVELOPMENT FOR SALE (continued)

On 8 May 2003, the Group entered into a supplemental agreement with the Purchaser and CMIC to amend certain terms of the aforesaid subscription agreement and to make corresponding amendments to the form of shareholders agreement and the share and loan securities to be entered into by the relevant parties on completion. The major changes to the original agreement are, among other things, as follows:

1. The purchaser will subscribe for 49 new shares at US\$49 but grant an interest free shareholders loan to Tong Sun Limited in the sum of HK\$165 million for a term of 2 years repayable on maturity before the declaration of any dividend by Tong Sun Limited and the loan shall be applied exclusively to finance the working capital requirement of the property under development for sale.
2. The procurement fee of HK\$50 million payable to the Group will be cancelled. CMIC or its nominee will grant a revolving interest bearing loan of up to HK\$45 million ("CMIC Loan") to the Group to finance the general working capital and settlement of accounts payable of the Group. The loan is for a term of 2 years and bears interest at the rate of 6% per annum and is repayable in one lump sum upon maturity.
3. In addition to the share and loan securities as mentioned in the document dated 25 September 2002, the former controlling shareholder of the Company and the present Chairman of the board of directors of the Company will charge their respective interest of 20% and 5% of the issued shares in the Company in favour of the Purchaser.
4. The Purchaser is entitled to a preferred dividend payment in the sum of HK\$94.6 million of Tong Sun Limited and repayment of its shareholders loan and CMIC Loan together with interest accrued thereon are in priority over the preferred dividend payment to the existing holding company of Tong Sun Limited, which is up to HK\$136 million. After the payment of the aforesaid preferred dividend payments and repayment of all shareholders loans and CMIC Loan, dividend and/or distribution to be declared by Tong Sun Limited will be in the following proportion:

Existing holding company	75%
Purchaser	25%

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 19. PROPERTY UNDER DEVELOPMENT FOR SALE (continued)

In addition to the conditions precedent to the completion of the subscription agreement, the above supplement agreement and loans to the Group will be subject to and conditional upon, among other things, the fulfillment of the following additional conditions on or before 30 June 2003:

1. the PRC subsidiary holding the property under development for sale should enter into a master standstill agreement in respect of, amongst other things, the settlement of the disputes between the PRC subsidiary and its creditors and other parties, withholding of legal actions against the PRC subsidiary by its creditor, the provision of further finance by a bank of the Group for the completion of the property under development and the arrangement for ultimate repayment of loans and monies due from the PRC subsidiary to its creditors;
2. the charges of a total of 25% interest in the issued shares of the Company by the former controlling shareholder of the Company and the present Chairman of the board of directors of the Company; and
3. CMIC enters into a loan facility letter in respect of the CMIC Loan with the Group.

The aforesaid supplement agreement, terms of the shareholders agreement and the share and loan securities and the transactions contemplated thereunder shall be subject to the approval of the shareholders of the Company.

A circular containing further details of the above arrangements will be despatched to the shareholders of the Company in due course.

### 20. PREPAYMENTS AND OTHER RECEIVABLES

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest bearing loan less allowance of HK\$5,000,000 (Note)	<b>37,623</b>	—
Amount due from Guozheng Economics Development Company Limited ("Guozheng") (see note 41(c))	<b>3,954</b>	—
Deposit with an investment company in the PRC	—	6,256
Temporary advances	<b>7,968</b>	934
Prepaid expenses, deposits and others	<b>4,552</b>	6,940
	<b>54,097</b>	14,130

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 20. PREPAYMENTS AND OTHER RECEIVABLES (continued)

Note:

In accordance with the loan agreement with the borrower, the loan is unsecured, carrying interest at a short term loan interest rate as announced by the People's Bank of China from time to time and due for repayment on 30 June 2003. However, no interest income amounting to approximately HK\$962,000 was recognised in the year. Moreover, the directors consider that an allowance for the amount of HK\$5,000,000 should be made for this loan.

### 21. AMOUNT DUE FROM A FORMER DIRECTOR

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Mr. Leung Kwo	<b>986</b>	—	<b>986</b>	—

During the year, the Group acquired a 49% interest in a company holding a piece of land in Beijing, the PRC from Mr. Leung Kwo, the former chairman and executive director, by the issuance of a convertible note of HK\$68 million. Mr. Leung Kwo and/or her nominee(s) may convert the convertible note into shares of the Company after the latter of the company holding the piece of land could (1) obtain the provisional land use right certificate or the land use right certificate in respect of the land on or before 30 September 2002 and (2) obtain the approval from the relevant department in the PRC within six months' time from the issuance of the convertible note. Should the company holding the land fail to obtain the documents and approval within the time stipulated, the Group would reverse the acquisition. Details of the transaction were disclosed in the circular dated 31 December 2001 to the shareholders of the Company. The company failed to obtain the approval from the relevant department within the period stipulated. The Group reversed the acquisition by transferring back to Mr. Leung Kwo the interest in the company. The above amount represents the amount of HK\$2,460,000 charged back to Mr. Leung Kwo relating to the acquisition transaction less the amounts due to Mr. Leung Kwo by the Group during the year. The maximum amount outstanding during the year amounted to HK\$986,000 (2001: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 22. AMOUNTS DUE FROM FORMER RELATED COMPANIES

#### THE GROUP

Name of company	At 31 December 2002 HK\$'000	At 1 January 2002 HK\$'000	Maximum amount outstanding during the year HK\$'000
Beijing Profit Mark Property Management Company Limited ("PMP")			
Interest bearing loan	7,665	—	8,590
Less: Amount due to PMP	(703)	—	
	6,962	—	
北京世源光華房地產開發有限公司, Beijing Shiyuan Guanghua Real Estate Development Limited ("Beijing Shiyuan")	47	—	<u>47</u>
	<u>7,009</u>	<u>—</u>	

PMP provides building management services to the Group. The interest bearing loan carries interest as disclosed in note 41(e) below and the amount due to PMP is unsecured, non-interest bearing with no fixed term of repayment.

The amount due from Beijing Shiyuan is unsecured, non-interest bearing with no fixed term of repayment.

The above companies were controlled by former directors of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 23. ACCOUNTS RECEIVABLE

The terms of payment in respect of the Group's sales of properties are in accordance with the terms of respective sales contracts.

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within 3 months	—	105
4 - 6 months	—	—
7 - 9 months	—	4,080
10 - 12 months	—	13,537
Over 1 year	<b>18,993</b>	21,607
	<b>18,993</b>	<b>39,329</b>

During the year, the directors reviewed the accounts receivable and consider that the recoverability of certain accounts receivable is remote. Accordingly, provision of HK\$4,190,000 (2001: Nil) is made in the financial statements.

### 24. RESTRICTED BANK BALANCES

The bank balances have been frozen by the court in the PRC following the legal action taken by a creditor.

### 25. ACCOUNTS PAYABLE

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within 3 months	<b>20,464</b>	—
4 - 6 months	<b>8,562</b>	106
7 - 9 months	<b>2,827</b>	9,995
10 - 12 months	<b>10,586</b>	—
Over 1 year	<b>158,680</b>	161,574
	<b>201,119</b>	<b>171,675</b>

Certain creditors have taken legal action to recover the amounts due by the Group and certain properties and bank balances of the Group are frozen by the court in the PRC following their actions.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 26. BANK BORROWINGS

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	<b>337,597</b>	443,224
Secured	<b>245,961</b>	394,715
Unsecured	<b>91,636</b>	48,509
	<b>337,597</b>	443,224
The maturity of the above loans is as follows:		
On demand or within one year	<b>337,496</b>	200,311
More than one year, but not exceeding two years	<b>101</b>	242,762
More than two years, but not exceeding five years	<b>—</b>	151
	<b>337,597</b>	443,224
Less: Amounts due within one year shown under current liabilities	<b>(337,496)</b>	(200,311)
Amounts due after one year	<b>101</b>	242,913

*Note:*

The repayment term of certain bank loans amounting to HK\$91,535,000 (2001: HK\$64,034,000) have matured before the year end date. Certain banks have taken legal action to recover the loans granted. Certain properties of the Group were frozen by the court in the PRC following their actions. As described in note 2, the directors are of the opinion that the Group can obtain the support from the bankers to renew those loans for a further period of time.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2002*

### **27. AMOUNTS DUE TO FORMER RELATED COMPANIES**

Amounts due to related parties as at the balance sheet date are as follows:

	<b>At 31 December 2002</b>	<b>At 1 January 2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Beijing Tian Sha Building Decoration Engineering Co Ltd	179	179
PMP	—	2,772
	<u>179</u>	<u>2,951</u>

The above amounts are unsecured, non-interest bearing with no fixed terms of repayment. The above companies were controlled by former directors of the Company.

### **28. LAND DEVELOPMENT COST PAYABLE**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts repayable within one year	<u><b>277,107</b></u>	<u>263,679</u>

The land development cost payable of approximately HK\$228,811,000 (2001: HK\$228,811,000) was jointly guaranteed by a joint venture partner of a subsidiary and BJNR.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 29. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments THE GROUP		Present value of minimum lease payments THE GROUP	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases				
Within one year	131	131	100	100
In the second to fifth year inclusive	263	350	200	292
	<u>394</u>	<u>481</u>	<u>300</u>	<u>392</u>
Less: Future finance charges	(94)	(89)	—	—
	<u>300</u>	<u>392</u>	<u>300</u>	<u>392</u>
Less: Amounts due within one year shown under current liabilities			(100)	(100)
Amounts due after one year			<u>200</u>	<u>292</u>

### 30. LONG-TERM PAYABLE

In October 1999, the joint venture partners of BJCSB entered into an agreement, pursuant to which Guozheng will give up all its interest in BJCSB in exchange for a fixed return as defined in the agreement. After completion of the transaction, BJCSB became a wholly-owned subsidiary of the Company. Accordingly, capital investment of HK\$46,642,000 (2001: HK\$46,642,000) made by Guozheng was reclassified as a long-term payable.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2002*

### **31. SHARE CAPITAL**

	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:		
Shares of HK\$0.001 each		
Balance as at 31 December 2000, 31 December 2001 and 31 December 2002	<u>500,000,000</u>	<u>500</u>
Issued and fully paid:		
Shares of HK\$0.001 each		
Balance as at 31 December 2000	252,300,000	252
Exercise of share options	11,958,000	12
Issue of new shares by way of placement on 13 March 2001	<u>7,500,000</u>	<u>8</u>
Balance as at 31 December 2001 and 31 December 2002	<u>271,758,000</u>	<u>272</u>

### **32. SHARE OPTIONS**

Pursuant to a shareholders' resolution passed on 14 June 2002, the share option scheme of the Company ("2000 share option scheme"), which was approved by its shareholders on 25 January 2000 enabling the directors to grant options to eligible employees, including directors of the Company and/or its subsidiaries to subscribe for shares in the Company was terminated.

A new share option scheme (the "New Share Option Scheme") was approved and adopted on 14 June 2002. The New Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the 2000 share option scheme shall continue to be subject to the provisions of the 2000 share option scheme and the adoption of the New Share Option Scheme will not in any event affect the terms of the grant of such outstanding options.

The New Share Option Scheme was adopted for the purpose of encouraging the full-time employees and Directors (including non-executive Directors and independent non-executive Directors), part time employees with weekly working hours of 10 hours and above of the Group and the Group's advisors, consultants, provider of goods and/or services and other person who has contributed to the Group or their trustee ("the Participants") to perform their best in achieving the goals of the Group and at the same time to allow them to enjoy the results of the Company attained through their efforts and contributions. Under the New Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 32. SHARE OPTIONS *(continued)*

Subject to the terms of the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme unless approval from the Company's shareholders is obtained to renew such limit. Notwithstanding the above, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme together with any options outstanding and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to each Participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular Participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the New Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK\$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered and, (iii) the nominal value of the shares.

At 31 December 2002, the number of shares in respect of which options had been granted and remaining outstanding under the 2000 share option scheme was 7,450,000 (2001: 10,242,000), representing 2.7% (2001: 3.8%) of the shares of the Company in issue at that date.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 32. SHARE OPTIONS (continued)

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

Option type	Outstanding at 1 January 2002	Lapsed during the year	Outstanding at 31 December 2002
2000	1,450,000	—	1,450,000
2001A	2,792,000	(2,792,000)	—
2001B	5,000,000	—	5,000,000
2001C	1,000,000	—	1,000,000
	<u>10,242,000</u>	<u>(2,792,000)</u>	<u>7,450,000</u>

  

Option type	Outstanding at 1 January 2001	Granted during the year	Exercised during the year	Outstanding at 31 December 2001
2000	3,950,000	—	(2,500,000)	1,450,000
2001A	—	12,250,000	(9,458,000)	2,792,000
2001B	—	5,000,000	—	5,000,000
2001C	—	1,000,000	—	1,000,000
	<u>3,950,000</u>	<u>18,250,000</u>	<u>(11,958,000)</u>	<u>10,242,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 32. SHARE OPTIONS (continued)

Details of the share options held by the directors and chief executive officer included in the above table are as follows:

Option type	Outstanding at 1 January 2001	Granted during the year	Exercised during the year	Outstanding at 31 December 2001 & 31 December 2002
2000	3,950,000	—	(2,500,000)	1,450,000
2001A	—	6,250,000	(6,250,000)	—
2001B	—	5,000,000	—	5,000,000
Total	<u>3,950,000</u>	<u>11,250,000</u>	<u>(8,750,000)</u>	<u>6,450,000</u>

Details of specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Closing price immediately before the dates of grant	Exercise price
2000	27 July 2000	27 July 2000 to 26 July 2003	27 July 2000 to 26 July 2003	1.33	1.04
2001A	13 February 2001	13 February 2001 to 12 February 2004	13 February 2001 to 12 February 2004	0.78	0.64
2001B	15 February 2001	15 February 2001 to 14 February 2004	15 February 2001 to 14 February 2004	1.11	0.69
2001C	21 February 2001	21 February 2001 to 20 February 2004	21 February 2001 to 20 February 2004	1.2	0.96

Note:

No charge is recognised in the income statement in respect of the value of options granted.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 33. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1 January 2001	2,390	4,755	20,728	20,058	1,664	(78,490)	(28,895)
Net loss for the year	—	—	—	—	—	(74,589)	(74,589)
Premium on placing of shares	9,743	—	—	—	—	—	9,743
Premium on issue of shares on exercise of share options	8,640	—	—	—	—	—	8,640
Realised on disposals of land and buildings	—	—	(1,812)	—	—	1,812	—
Realised on disposals of investment properties	—	—	—	2,006	—	—	2,006
Net surplus on revaluation	—	—	44,451	36,029	—	—	80,480
At 31 December 2001	20,773	4,755	63,367	58,093	1,664	(151,267)	(2,615)
Net loss for the year	—	—	—	—	—	(137,109)	(137,109)
Reclassification	—	—	(6,681)	6,681	—	—	—
Net deficit on revaluation	—	—	(9,554)	(58,093)	—	—	(67,647)
At 31 December 2002	<u>20,773</u>	<u>4,755</u>	<u>47,132</u>	<u>6,681</u>	<u>1,664</u>	<u>(288,376)</u>	<u>(207,371)</u>



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 33. RESERVES (continued)

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1 January 2001	2,390	306,450	(79,710)	229,130
Loss for the year	—	—	(7,346)	(7,346)
Premium on placing of shares	9,743	—	—	9,743
Premium on issue of shares on exercise of share options	8,640	—	—	8,640
	<u>20,773</u>	<u>306,450</u>	<u>(87,056)</u>	<u>240,167</u>
At 31 December 2001	20,773	306,450	(87,056)	240,167
Loss for the year	—	—	(242,359)	(242,359)
	<u>20,773</u>	<u>306,450</u>	<u>(329,415)</u>	<u>(2,192)</u>
At 31 December 2002	<u>20,773</u>	<u>306,450</u>	<u>(329,415)</u>	<u>(2,192)</u>

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the corporate reorganisation prior to the listing of the Company's shares in 2000.

The contribution surplus of the Group represents the difference between the nominal value of shares of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the corporate reorganisation.

The balance in the investment property revaluation reserve as at 31 December 2002 represented the revaluation surplus attributable to properties previously classified as land and buildings and transferred to investment properties during the year.

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2002*

### **34. DEFERRED TAXATION**

At the balance sheet date, the Group had deferred taxation asset not provided for in the financial statements in respect of estimated taxation losses amounting to HK\$31,839,000 (2001: HK\$28,925,000). No deferred asset has been recognised in the financial statements as it is not certain that the asset will crystallise in the foreseeable future.

The amount of unprovided deferred taxation for the year in respect of estimated taxation loss amounted to HK\$2,914,000 (2001: HK\$11,039,000).

Deferred taxation has not been provided on the revaluation surplus/deficit arising on the revaluation of land and buildings and investment properties, as the directors consider that those properties will not be disposed of in the foreseeable future and accordingly, the deferred taxation arising therefrom will not be crystallised in the foreseeable future.

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

### **35. CONTINGENT LIABILITIES**

- (1) During the year, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million. On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. The directors of the Group, based on the opinion of the independent legal advisers, considered that the claim from the purchaser will be overruled and no provision for the loss in the financial statements is necessary.
- (2) In October 2002, one of the creditors of the Group filed a notice of arbitration against the PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290 million, which relates to certain land development cost for the property of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against the PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group is currently at the final stage of finalizing the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms will form part of the master standstill agreement as mentioned under note (19) above. The directors are confident that the creditor will sign the agreement. Under the agreement, the Group is not liable to pay the aforesaid interest penalty of approximately RMB68 million. Accordingly, the aforesaid sum has not been provided in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 36. DISPOSAL OF A SUBSIDIARY

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Amount due to immediate holding company	<u>(39,823)</u>	<u>—</u>
Net liabilities disposed of	<b>(39,823)</b>	—
Assignment of intercompany accounts	<b>39,363</b>	—
Waiver of intercompany accounts	<b>460</b>	—
Results on disposal of a subsidiary	<u>—</u>	<u>—</u>
Total consideration	<u>—</u>	<u>—</u>
Satisfied by:		
Cash consideration	<u>—</u>	<u>—</u>
Net cash inflow on disposal:		
Cash consideration	<u>—</u>	<u>—</u>

The subsidiary disposed of during the year did not contribute (2001: Nil) to the Group's turnover and incurred a loss of HK\$5,457,000 (2001: Nil) attributable to the Group.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 37. LEASE COMMITMENTS

#### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, in respect of premises, which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	1,973	4,245
In the second to fifth year inclusive	1,590	2,750
	<u>3,563</u>	<u>6,995</u>

Operating lease payments represent rentals payable by the Group for certain of office properties. Leases are negotiated for an average term of 2 years.

At 31 December 2002, the Company have no commitments under non-cancellable leases (2001: Nil).

#### The Group as lessor

Property rental income earned during the year was HK\$2,658,000 (2001: HK\$3,835,000). The investments properties are expected to generate rental yields of 1.7% (2001: 1.5%) on an ongoing basis. Most of the properties leased have no contracted commitments.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	1,043	782
In the second to fifth year inclusive	199	476
	<u>1,242</u>	<u>1,258</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 38. CAPITAL AND CONSTRUCTION COMMITMENTS

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
At the balance sheet date, the Group had the following capital and construction commitments:		
Capital expenditure in relation to the property, plant and equipment contracted but not provided for	<b>2,390</b>	2,390
Capital expenditure in relation to the property under development contracted but not provided for	<b>20,059</b>	45,043
Capital expenditure in relation to the property under development authorised but not contracted for	<b>567,079</b>	560,220
	<b>589,528</b>	607,653

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

### 39. RETIREMENT AND PENSION PLANS

The group companies operating in the PRC participate in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. These group companies are required to make specific contributions to the retirement schemes at a rate of 19% (2001: 19%) of the basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2002 amounted to approximately HK\$67,000 (2001: HK\$827,000).

The Group has joined a Mandatory Provident Fund scheme ("MPF Scheme") for all its non-PRC employees in 2000. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. During the year, the Group made retirement benefit scheme contributions arising from the MPF Scheme amounting to HK\$87,000 (2001: HK\$155,000).

## **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2002

### **40. PLEDGE OF ASSETS**

At 31 December 2002, the Group had pledged its properties under development with an aggregate net book value of HK\$710,307,000 (2001: HK\$623,088,000) to secure bank loans granted and amounts payable in respect of land development cost totalling approximately HK\$523,068,000 (2001: HK\$658,394,000). Certain investment properties and land and buildings, a portion of property under development for sale and bank balances of HK\$23,434,000 have been frozen by the court in the PRC following the legal action taken by creditors of the Group.

### **41. RELATED PARTY TRANSACTIONS**

- (a) The Group had the following significant transactions with related parties conducted on terms arrived at by reference to market prices during the year:

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Estate management service fee to a company controlled by a former director	<b>305</b>	—
Rental income from a company controlled by a former director	<b>325</b>	325
	<b><u>325</u></b>	<u>325</u>

- (b) During the year, the Group acquired a 49% interest in a company from a former director, Mr. Leung Kwo. Details of transaction has been disclosed in the circular dated 31 December 2001 to the shareholders of the Company. The transaction was reversed due to the failure of the company to obtain approval from the relevant department in the PRC. Details of the transaction are set out in note 21 above.
- (c) In October 1999, the joint venture partners of BJCSB entered into an agreement, pursuant to which Guozheng will give up all its interest in BJCSB in exchange for a fixed return as defined in the agreement. After completion of the transaction, BJCSB became a wholly-owned subsidiary of the Company. Accordingly, the amount due from Guozheng of HK\$3,954,000 was included in prepayments and other receivable (2001: amount due to Guozheng of HK\$2,442,000 was included in accounts payable) and the previous capital investment of HK\$46,642,000 (2001: HK\$46,642,000) made by Guozheng was classified as a long-term payable.

Guozheng has jointly guaranteed the land development cost payable by and bank loans to the Group totalling approximately HK\$228,811,000 and RMB100,000,000 as at 31 December 2002 (2001: HK\$228,811,000 and RMB100,000,000) respectively.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

### 41. RELATED PARTY TRANSACTIONS *(continued)*

- (d) During the year, the Group maintained accounts with companies controlled by former directors. Details of their balances as at 31 December 2002 are set out in notes 22 and 27 above.
- (e) During the year, the Group entered into an unsecured loan agreement with PMP which provides building management services to the Group to the extent of RMB10,000,000 with interest at a short term loan interest rate as announced by the People's Bank of China from time to time. The loan agreement entered into was a consequence of the Group's satisfaction of a guarantee executed in 2001 in favour of a banker for its banking facilities granted to PMP to the extent of RMB10 million. Interest income recognised during the year amounted to HK\$297,000 (2001:Nil).

### 42. SUBSEQUENT EVENT

On 8 May 2003, the Group entered into a supplemental agreement with the purchaser of the Company's 49% interest in the property under development for sale. Details of the transaction are disclosed in note 19 above.