



Notes to the Financial Statements

For the year ended 31 December, 2002

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Perfect Zone International Limited (“Perfect Zone”), a company incorporated in the British Virgin Islands (“BVI”).

The Company is an investment holding company. Its subsidiaries are principally engaged in property development and investment.

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 (“SSAPs”) 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 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.

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Foreign Currencies

The revisions to SSAP 11 (Revised) “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the year, 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.

Employee Benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group only participates in defined contribution retirement benefits scheme, the adoption of SSAP 34 has not had any material impact on the financial statements.

Notes to the Financial Statements

For the year ended 31 December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties, and 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 their effective dates of acquisition or up to their effective dates 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.

Jointly controlled entity

Joint venture arrangement which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entity.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity less any identified impairment loss. The Group's share of the post-acquisition result of its jointly controlled entity is included in the consolidated income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

Leasehold land and buildings	The shorter of the lease terms and 50 years
Leasehold improvements	The shorter of the lease terms and 5 years
Machinery	10 years
Furniture, office equipment and motor vehicles	5 years

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.



Notes to the Financial Statements

For the year ended 31 December, 2002

3. SIGNIFICANT 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. 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.

Properties under development/properties for sale

Properties for sale, which comprise completed properties and properties under development, are stated at the lower of cost and net realisable value. Cost includes all development expenditure, interest charges and other direct costs attributable to the development of the properties and is determined by an apportionment of the total development costs attributable to unsold properties. Net realisable value is estimated by the directors based on prevailing market prices, on an individual property basis.

When properties under development have been pre-sold, 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 pre-sold portion of the properties is calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to completion and is limited to the amount of sales instalments received after due allowance for contingencies.

Properties under development which have either been pre-sold, are intended for sale, or are expected to be completed within twelve months, are classified as current assets.

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.

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.



Notes to the Financial Statements

For the year ended 31 December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting 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.

Revenue recognition

The revenue arising from sales of properties under development/properties for sale is recognised when legally binding unconditional sales contracts are signed and effected, provided that the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out above under “Properties under development/Properties for sale”.

Property management income is recognised when the related management services have been rendered.

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant lease.

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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.

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

Operating leases

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

Notes to the Financial Statements

For the year ended 31 December, 2002

4. SEGMENTAL INFORMATION

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

Segment information about these businesses is presented below.

Business segments

RESULTS

	Property development		Property investment		Property management		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment turnover	12,009	42,644	4,336	157	719	1,251	17,064	44,052
Segment result	(161,283)	(27,815)	2,862	(980)	(92)	(860)	(158,513)	(29,655)
Finance costs							(7,670)	(8,083)
Share of result of a jointly controlled entity							3,101	–
Gain on disposal of subsidiaries							2,887	–
Loss before taxation							(160,195)	(37,738)
Taxation							(920)	1,200
Net loss for the year							(161,115)	(36,538)

Notes to the Financial Statements

For the year ended 31 December, 2002

4. SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

BALANCE SHEET

	Property development		Property investment		Other		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS								
Segment assets	76,950	314,055	397,572	238,710	4	985	474,526	553,750
Interest in a jointly controlled entity							72,886	–
Loan to a jointly controlled entity							76,316	–
Unallocated corporate assets							86,722	–
							710,450	553,750
LIABILITIES								
Segment liabilities	47,221	233,971	237,463	161,005	1,137	990	285,821	395,966
Unallocated corporate liabilities							54,240	–
							340,061	395,966

Notes to the Financial Statements

For the year ended 31 December, 2002

4. SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

OTHER INFORMATION

	Property development		Property investment		Other		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions of property, plant and equipment	22	–	–	–	55,509	272	55,531	272
Depreciation and amortisation	1,398	1,931	17	–	71	46	1,486	1,977
Allowance for bad and doubtful debts	–	8,580	–	–	–	–	–	8,580
Allowance for properties under development	107,309	–	–	–	–	–	107,309	–
Allowance for properties for sales	15,210	–	–	–	–	–	15,210	–
Deficit on revaluation of leasehold land and buildings	12,349	1,390	–	–	–	–	12,349	1,390
Deficit on revaluation of investment properties	–	–	43	302	–	–	43	302
Surplus on revaluation of investment properties	–	–	13,320	–	–	–	13,320	–

Notes to the Financial Statements

For the year ended 31 December, 2002

4. SEGMENTAL INFORMATION (Continued)

Geographical segments

The Group's operations are mainly located in Hong Kong and the People's Republic of China (other than Hong Kong) (the "PRC").

All the turnover of the Group were derived in the PRC.

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	434,995	244,840	55,451	–
PRC	275,455	308,910	80	272
	710,450	553,750	55,531	272

Notes to the Financial Statements

For the year ended 31 December, 2002

5. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:		
Cost of properties sold	13,863	41,631
Depreciation and amortisation	1,486	1,977
Auditors' remuneration	350	500
Staff costs		
Directors' remuneration (<i>Note 7</i>)	4,013	1,274
Other staff costs		
Salaries and other benefits	8,023	4,666
Retirement benefits scheme contributions	198	46
	12,234	5,986
Deficit on revaluation of investment properties	43	302
Loss on disposal of investment properties	–	390
Loss on disposal of property, plant and equipment	317	–
Operating lease rentals in respect of land and buildings	1,363	521
Compensation for delay in completion of properties	152	1,020
and after crediting:		
Interest income	(2,080)	(4)
Gain on disposal of property, plant and equipment	–	(451)
Gross rental income	(4,336)	(157)
Less: Outgoings	245	26
Net rental income	(4,091)	(131)

Notes to the Financial Statements

For the year ended 31 December, 2002

6. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans wholly repayable within five years	11,316	11,118
Interest on promissory notes wholly repayable within five years	900	–
Total finance costs	12,216	11,118
Less: Interest capitalised in properties under development	(4,546)	(3,035)
	7,670	8,083

Interest capitalised during the year was calculated at a rate of approximately 6% (2001: 7%) per annum.

7. DIRECTORS' REMUNERATION

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	3,893	–
Non-executive directors	120	–
Other emoluments:		
Executive directors		
Salaries and other benefits	–	1,072
Retirement benefits scheme contributions	–	22
Non-executive directors	–	180
	4,013	1,274

Notes to the Financial Statements

For the year ended 31 December, 2002

7. DIRECTORS' REMUNERATION (Continued)

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	4	12
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	–

During the year, no emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office.

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

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2001: three) were directors of the Company, whose remunerations are included in note 7 above. The emoluments of the remaining one (2001: two) highest paid individual were as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other benefits	650	672
Retirement benefits scheme contributions	12	16
	662	688

Notes to the Financial Statements

For the year ended 31 December, 2002

9. TAXATION

	2002 HK\$'000	2001 HK\$'000
Income tax in the PRC		
Current year	455	–
Overprovision in prior years	–	(1,200)
	455	(1,200)
Share of taxation attributable to a jointly controlled entity	465	–
	920	(1,200)

No provision for Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiaries since they had no assessable profit for the year. Income tax arising in the PRC is calculated at the rates prevailing in the PRC.

A deferred tax asset of approximately HK\$5,462,000 (2001: HK\$4,009,000) has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of leasehold land and buildings and investment properties as profits arising on the disposal of those assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$161,115,000 (2001: HK\$36,538,000) and the weighted average of 749,962,841 (2001: 325,192,522) ordinary shares in issue during the year.

The weighted average number of ordinary shares for the year ended 31 December, 2001 for the purposes of calculating the basic loss per share has been adjusted for the rights issue on 23 January, 2002 and 11 April, 2002.

The computation of diluted loss per share has not assumed the exercise of the potential ordinary shares since their exercise would result in a reduction in loss per share.

Notes to the Financial Statements

For the year ended 31 December, 2002

11. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Furniture, office equipment and motor vehicles HK\$'000	Total HK\$'000
COST OR VALUATION					
At 1 January, 2002	41,186	5,371	445	4,107	51,109
Additions	51,923	2,887	–	721	55,531
Acquisition of subsidiaries	–	–	–	131	131
Disposals	(3,101)	–	–	(131)	(3,232)
Deficit on revaluation	(22,007)	–	–	–	(22,007)
Disposal of subsidiaries	(16,078)	(5,371)	(445)	(4,024)	(25,918)
At 31 December, 2002	51,923	2,887	–	804	55,614
ANALYSIS OF COST OR VALUATION					
At cost	51,923	2,887	–	804	55,614
At valuation	–	–	–	–	–
	51,923	2,887	–	804	55,614
DEPRECIATION AND AMORTISATION					
At 1 January, 2002	–	3,142	294	3,353	6,789
Provided for the year	610	725	26	125	1,486
Eliminated on disposals	(55)	–	–	(17)	(72)
Written back on revaluation	(381)	–	–	–	(381)
Eliminated on disposal of subsidiaries	(174)	(3,867)	(320)	(3,377)	(7,738)
At 31 December, 2002	–	–	–	84	84
NET BOOK VALUES					
At 31 December, 2002	51,923	2,887	–	720	55,530
At 31 December, 2001	41,186	2,229	151	754	44,320

Notes to the Financial Statements

For the year ended 31 December, 2002

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

THE GROUP (Continued)

The Group's leasehold land and buildings included above are held under the following terms:

	2002 HK\$'000	2001 HK\$'000
Long leases in Hong Kong	51,923	2,610
Long leases in the PRC	–	38,132
Medium term leases in the PRC	–	444
	51,923	41,186

At 31 December, 2002, the Group's leasehold land and buildings situated in Hong Kong with carrying values of approximately HK\$51,923,000 (2001: HK\$2,610,000) were pledged to secure certain banking facilities granted to the Group (Note 19).

12. INVESTMENT PROPERTIES

	The Group HK\$'000
Valuation:	
At 1 January, 2002	238,710
Additions	2,572
Acquisition of subsidiaries	213,000
Transfer to properties under development	(72,776)
Deficit on revaluation (Note 5)	(43)
Disposal of subsidiaries	(42)
Surplus on revaluation (Note 23)	13,320
At 31 December, 2002	394,741

Notes to the Financial Statements

For the year ended 31 December, 2002

12. INVESTMENT PROPERTIES (Continued)

The Group's investment properties are held under the following terms:

	2002 HK\$'000	2001 HK\$'000
Long lease in Hong Kong	180,741	238,625
Long lease in the PRC	214,000	85
	394,741	238,710

At 31 December, 2002, the investment properties in Hong Kong and the PRC were revalued on an open market, existing use basis by Chesterton Petty Limited, an independent firm of professional valuers, at HK\$180,741,000 and HK\$214,000,000, respectively. Surplus on revaluation of approximately HK\$13,320,000 arising from the above valuations have been credited to the investment properties revaluation reserve.

At 31 December, 2002, the Group's investment properties situated in Hong Kong and the PRC with carrying value of approximately HK\$180,741,000 (2001: HK\$238,625,000) and HK\$4,057,000 (2001: nil) respectively, were pledged to secure certain banking facilities granted to the Group (*Note 19*).

13. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	72,886	—

Notes to the Financial Statements

For the year ended 31 December, 2002

13. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

As at 31 December, 2002, the Group had interest in the following jointly controlled entity:

Name of entity	Place of registration	Registered capital	Attributable equity interest of the Group	Nature of business
Shanghai Shimao Hubin Real Estate Company Limited ("Shimao Hubin") <i>(Note)</i>	PRC	US\$18 million	50%	Property development

Note: Shimao Hubin is a sino-foreign equity joint venture for a period of 20 years commencing from 19 April, 2002.

The following details have been extracted from the audited financial statements of Shimao Hubin which are not audited by Messrs. Deloitte Touche Tohmatsu.

Results for the period from 19 April, 2002 (date of establishment) to 31 December, 2002

	2002 HK\$'000	2001 HK\$'000
Turnover	180,852	–
Profit from ordinary activities before taxation	6,202	–
Profit from ordinary activities before taxation attributable to the Group	3,101	–

Financial position

	2002 HK\$'000	2001 HK\$'000
Non-current assets	1,297	–
Current assets	800,728	–
Current liabilities	(561,956)	–
Non-current liabilities	(94,297)	–
Net assets	145,772	–
Net assets attributable to the Group	72,886	–

Notes to the Financial Statements

For the year ended 31 December, 2002

14. PROPERTIES UNDER DEVELOPMENT

The Group's properties under development are situated in Hong Kong and are held under long lease.

At 31 December, 2002, the Group's properties under development with an aggregate carrying value of approximately HK\$76,950,000 (2001: HK\$112,000,000) were pledged to secure banking facilities granted to the Group (*Note 19*).

15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	–	163,006

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

Name	Place of incorporation/ registration/ operations	Issued share capital/ registered capital	Attributable equity interest of the Company	Principal activities
Directly held				
Shimao HK Management Company Limited	Hong Kong	HK\$2	100%	Management services
Indirectly held				
Advantage Properties Limited	BVI/Hong Kong	US\$1	100%	Property investment
Champ Master Management Limited	Hong Kong/PRC	HK\$2	100%	Property investment
Great Cosmos Profits Limited	BVI/Hong Kong	US\$1	100%	Property investment
Lanzhou Xinglong Real Estate Development Co., Ltd.	PRC	RMB20,000,000	100%	Property investment
Vast Union Investments Limited	BVI	US\$1	100%	Investment holding

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

None of the subsidiaries had any debt securities outstanding during the year or at the end of the year.

Notes to the Financial Statements

For the year ended 31 December, 2002

16. TRADE RECEIVABLES

The Group normally allows a credit period of one month to its trade customers. The aged analysis of trade receivables is as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Aged:		
Current	–	26,594
1 to 60 days overdue	476	–
61 to 90 days overdue	238	–
Over 90 days overdue	1,016	–
	1,730	26,594

17. TRADE PAYABLES

The Group's trade payables mainly comprised costs payable for property development projects which were payable upon completion of work certified by the architects. At 31 December, 2001, most of the Group's trade payables were current within their respective terms of credit and there were no significant overdue amounts.

18. BORROWINGS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans – secured	187,259	259,947
Other loans – secured	–	3,199
	187,259	263,146

Notes to the Financial Statements

For the year ended 31 December, 2002

18. BORROWINGS (Continued)

	The Group	
	2002 HK\$'000	2001 HK\$'000
The borrowings are repayable as follows:		
On demand or within one year	15,642	112,879
More than one year, but not exceeding two years	13,067	10,733
More than two years, but not exceeding five years	39,200	32,200
More than five years	119,350	107,334
	187,259	263,146
Less: Amount due within one year shown under current liabilities	(15,642)	(112,879)
	171,617	150,267

19. BANKING FACILITIES

At 31 December, 2002, the Group's banking facilities were secured by:

- (i) the Group's leasehold land and buildings situated in Hong Kong and the PRC with carrying values of approximately HK\$51,923,000 (2001: HK\$2,610,000) and nil (2001: HK\$26,000,000), respectively (*Note 11*);
- (ii) the Group's investment properties situated in Hong Kong and the PRC with carrying values of approximately HK\$180,741,000 (2001: HK\$238,625,000) and HK\$4,057,000 (2001: nil), respectively (*Note 12*);
- (iii) the Group's properties under development with an aggregate carrying values of approximately HK\$76,950,000 (2001: HK\$112,000,000) (*Note 14*);
- (iv) personal guarantees given by a director of the Company; and
- (v) corporate guarantees given by the Company and a related company.

Notes to the Financial Statements

For the year ended 31 December, 2002

20. SHARE CAPITAL

	Notes	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each			
Authorised:			
At 1 January, 2001 and 31 December, 2001		1,000,000	100,000
Increase on 15 March, 2002	(a)	9,000,000	900,000
At 31 December, 2002		10,000,000	1,000,000
Issued and fully paid:			
At 1 January, 2001		258,688	25,869
Issue of shares		41,000	4,100
Exercise of warrants		10,778	1,078
Exercise of share options		2,850	285
At 31 December, 2001		313,316	31,332
Rights issue	(b)	485,706	48,571
Exercise of warrants	(c)	25,959	2,595
At 31 December, 2002		824,981	82,498

Notes:

- (a) Pursuant to an ordinary resolution passed on 15 March, 2002, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 9,000,000,000 new shares of HK\$0.1 each in the Company.
- (b) On 23 January, 2002, 156,658,000 new shares of HK\$0.1 each were issued by way of a rights issue on the basis of one rights share for every two shares at HK\$0.65 per rights share. The net proceeds of approximately HK\$100,500,000 were used to settle part of the cash consideration for the acquisition of an investment property by a subsidiary during year 2001 and to repay the amount due to ultimate holding company.
- On 11 April, 2002, 329,048,466 new shares of HK\$0.1 each were issued by way of a rights issue on the basis of seven rights shares for every ten shares at HK\$0.65 per rights share. The net proceeds of approximately HK\$212,300,000 were used to form a jointly controlled entity and to acquire a land property.
- (c) During the year, 25,958,567 shares of HK\$0.1 each were issued for cash at a subscription price of HK\$0.294 per share pursuant to the exercise of the Company's warrants for a total consideration, before expenses, of approximately HK\$7,632,000.

These shares rank pari passu with all other shares in all respects.



Notes to the Financial Statements

For the year ended 31 December, 2002

21. WARRANTS

As a consequence of the rights issue announced on 4 December, 2001, the subscription price for new shares under the terms of the instrument dated 10 December, 1999 creating the warrants was adjusted downwards with effect from 16 January, 2002. Accordingly, each HK\$0.35 of subscription rights which previously entitled the holder to subscribe HK\$0.1 in cash for new shares at an issue price of HK\$0.35 now entitles the holder to subscribe HK\$0.1 in cash for new share at an issue price of HK\$0.294.

The warrants lapsed on 31 December, 2002.

During the year, warrants with aggregate gross issue proceeds of approximately HK\$8,414,000 were exercised by the warrant holders to subscribe for 28,617,420 ordinary shares in the Company at a subscription price of HK\$0.294 per share.

25,958,567 ordinary shares in the Company were issued during the year and the remaining of 2,658,853 ordinary shares in the Company were issued subsequent to the balance sheet date.

22. SHARE OPTION SCHEME

Under the terms of the share option scheme adopted by the Company for the primary purpose of providing incentives to directors and eligible employees, the directors of the Company may, at their discretion, grant options to employees of the Group including executive directors of the Company to subscribe for shares.

During the year, there is no outstanding share option and no share options were granted or exercised during the year.

Notes to the Financial Statements

For the year ended 31 December, 2002

23. RESERVES

	Share premium	Contributed surplus	Shareholder's contribution	Leasehold land and buildings revaluation reserve	Investment properties revaluation reserve	Statutory reserve fund	Accumulated profits/ (losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
At 1 January, 2001	31,860	47,654	–	11,418	–	13,237	45,002	149,171
Issue of shares	12,300	–	–	–	–	–	–	12,300
Share issue expenses	(407)	–	–	–	–	–	–	(407)
Exercise of share options	1,026	–	–	–	–	–	–	1,026
Exercise of warrants	2,694	–	–	–	–	–	–	2,694
Released on disposals	–	–	–	(1,170)	–	–	–	(1,170)
Deficit on revaluation not recognised in the consolidated income statement	–	–	–	(624)	–	–	–	(624)
Net loss for the year	–	–	–	–	–	–	(36,538)	(36,538)
At 31 December, 2001	47,473	47,654	–	9,624	–	13,237	8,464	126,452
Rights issue	267,139	–	–	–	–	–	–	267,139
Share issue expenses	(1,874)	–	–	–	–	–	–	(1,874)
Exercise of warrants	5,036	–	–	–	–	–	–	5,036
Released on disposals	–	–	–	(347)	–	–	–	(347)
Deficit on revaluation not recognised in the consolidated income statement	–	–	–	(9,277)	–	–	–	(9,277)
Realised upon the disposal of subsidiaries	–	–	–	–	–	(13,237)	13,237	–
Surplus on revaluation of investment properties	–	–	–	–	13,320	–	–	13,320
Arising from acquisition of subsidiaries	–	–	48,557	–	–	–	–	48,557
Net loss for the year	–	–	–	–	–	–	(161,115)	(161,115)
At 31 December, 2002	317,774	47,654	48,557	–	13,320	–	(139,414)	287,891

Notes to the Financial Statements

For the year ended 31 December, 2002

23. RESERVES (Continued)

	Share premium	Contributed surplus	Shareholder's contribution	Leasehold land and buildings revaluation reserve	Investment properties revaluation reserve	Statutory reserve fund	Accumulated profits/ (losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY								
At 1 January, 2001	31,860	152,029	–	–	–	–	(34,718)	149,171
Issue of shares	12,300	–	–	–	–	–	–	12,300
Share issue expenses	(407)	–	–	–	–	–	–	(407)
Exercise of share options	1,026	–	–	–	–	–	–	1,026
Exercise of warrants	2,694	–	–	–	–	–	–	2,694
Net loss for the year	–	–	–	–	–	–	(35,338)	(35,338)
At 31 December, 2001	47,473	152,029	–	–	–	–	(70,056)	129,446
Rights issue	267,139	–	–	–	–	–	–	267,139
Share issue expenses	(1,874)	–	–	–	–	–	–	(1,874)
Exercise of warrants	5,036	–	–	–	–	–	–	5,036
Net loss for the year	–	–	–	–	–	–	(149,340)	(149,340)
At 31 December, 2002	317,774	152,029	–	–	–	–	(219,396)	250,407

In accordance with the laws of the PRC on Sole Foreign Investment Enterprises, the Company's PRC subsidiaries are required to transfer an amount of not less than 10% of their profit after tax to the statutory reserve fund until the accumulated total reaches 50% of their registered capital. The statutory reserve fund has been realised upon the disposal of the Company's PRC subsidiaries.

The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 22 June, 1998, and represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

Notes to the Financial Statements

For the year ended 31 December, 2002

23. RESERVES (Continued)

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

The shareholder's contribution represents the excess of the fair value of the net assets of the subsidiaries acquired pursuant to the agreements dated 29 May, 2002 over the nominal value of the promissory notes issued in exchange therefor.

In the opinions of the directors, the Company has no reserves available for distribution to its shareholders. However, pursuant to the Company Act 1981 of Bermuda (as amended), the Company share premium account of HK\$317,774,000 (2001: HK\$47,473,000) may be distributed in the form of fully paid bonus shares.

24. PROMISSORY NOTES

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Issued to:				
A related company	120,000	–	–	–
Ultimate holding company	10,000	–	10,000	–
	130,000	–	10,000	–

The promissory notes are unsecured and bear an interest rate of 1.5% per annum with the expiry date falling on 31 December, 2005.

Notes to the Financial Statements

For the year ended 31 December, 2002

25. ACQUISITION OF SUBSIDIARIES

Pursuant to the agreements dated 29 May, 2002 entered into between Sparkle Talent Limited (“Sparkle Talent”), a wholly-owned subsidiary of the Company, and Shimaogroup (Property Investments) Limited (“Shimaogroup”), Sparkle Talent acquired from Shimaogroup (i) the entire issued share capital of Shimaogroup (DongFangHong Commercial City) Limited (“DFH”) and the shareholder’s loan of DFH of approximately HK\$18,868,000 at a total consideration of HK\$70 million which was satisfied by the issue of a promissory note of HK\$70 million, and (ii) the entire issued share capital of Ideal Target Holdings Limited (“IT”) and the shareholder’s loan of IT of approximately HK\$42,453,000 at a total consideration of HK\$80 million, which was satisfied by the issue of a promissory note of HK\$80 million. The promissory notes bear interest at 1.5% per annum with the expiry date on 31 December, 2005. Both transactions were completed on 16 July 2002. These acquisitions have been accounted for by the acquisition method of accounting.

	2002 HK\$'000	2001 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	131	–
Investment properties	213,000	–
Prepayments, deposits and other receivables	137	–
Bank balances and cash	685	–
Amount due to related parties	(10,298)	–
Other payables and accruals	(2,334)	–
Borrowings	(2,764)	–
	198,557	–
Shareholder’s contribution	(48,557)	–
	150,000	–
SATISFIED BY		
Promissory notes issued	150,000	–
Net cash inflow arising on acquisition		
Bank balances and cash acquired	685	–

The subsidiaries acquired during the year contributed approximately HK\$4,336,000 to the Group’s turnover, and a profit of approximately HK\$3,377,000 to the Group’s loss from operations.

The investment properties are revalued at their open market values at 30 April, 2002 by Vigers Hong Kong Limited, an independent valuer, on an open market value basis.

Notes to the Financial Statements

For the year ended 31 December, 2002

26. DISPOSAL OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	18,180	–
Investment properties	42	–
Properties under development	58,442	–
Properties for sale	53,652	–
Prepayments, deposits and other receivables	2,646	–
Trade receivables	24,009	–
Bank balances and cash	1,174	–
Trade payables	(4,126)	–
Other payables and accruals	(29,565)	–
Amount due to the Company	(38,752)	–
Tax payables	(17,197)	–
Borrowings	(89,557)	–
	(21,052)	–
Waiver of amount due to the Company	18,165	–
Gain on disposal	2,887	–
	–	–
SATISFIED BY:		
Cash	–	–
Net cash outflow arising on disposal:		
Cash consideration	–	–
Bank balances and cash disposed of	1,174	–
	1,174	–

The subsidiaries disposed of during the year contributed approximately HK\$12,728,000 to the Group's turnover and approximately HK\$139,040,000 to the Group's loss from operations.



Notes to the Financial Statements

For the year ended 31 December, 2002

27. MAJOR NON-CASH TRANSACTIONS

- (1) During the year, pursuant to the agreements entered into between Sparkle Talent, a wholly-owned subsidiary of the Company, and Shimao Group, Sparkle Talent acquired the entire issued share capital of DFH and IT, and shareholders' loans of DFH and IT of approximately HK\$61,321,000 at a total consideration of HK\$150 million, which was satisfied by the issue of promissory notes of HK\$150 million.
- (2) During the year, the Group disposed of the entire issued share capital of certain subsidiaries and amount due from these subsidiaries of approximately HK\$20,587,000, being the amount after taking into account the waiver of amount due to the Group of approximately HK\$18,165,000, pursuant to the agreements dated 10 July, 2002 and 5 November, 2002 respectively, to independent third parties at a total cash consideration of HK\$101.

28. RETIREMENT BENEFITS SCHEME

Since 1 December, 2000, the Group has operated a pension scheme under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately in an independent managed fund. The Group has followed the minimum statutory contribution requirements of 5% of eligible employees' relevant aggregate income. The contributions are charged to the income statement as incurred.

The relevant PRC subsidiaries are required to make contributions to the state requirement schemes in the PRC based on 18% to 22% of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

Notes to the Financial Statements

For the year ended 31 December, 2002

29. OPERATING LEASE ARRANGEMENTS

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 office premises which fall due as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	909	1,363
In the second to fifth year inclusive	–	909
	909	2,272

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

The Company had no operating lease commitments at 31 December, 2002.

The Group as lessor

Property rental income earned during the year was approximately HK\$4,336,000 (2001: HK\$157,000).

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

	2002 HK\$'000	2001 HK\$'000
Within one year	5,937	–
In the second to fifth year inclusive	25,837	–
Over five years	8,453	–
	40,227	–

Notes to the Financial Statements

For the year ended 31 December, 2002

30. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had the following capital commitments contracted for but not provided in the financial statements:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Commitments in respect of development expenditure for properties under development	4,377	29,370	—	—
Commitments in respect of refurbishment expenditure for investment properties	24,189	—	—	—
Commitments in respect of capital contributions to subsidiaries in the PRC	—	—	—	48,645
Commitments in respect of the acquisition of property, plant and equipment	2,290	—	—	—
	30,856	29,370	—	48,645

31. CONTINGENT LIABILITIES

The Company has given guarantees in favour of bankers to the extent of HK\$196,000,000 (2001: HK\$171,000,000) in respect of banking facilities granted to subsidiaries of the Company. At the balance sheet date, the banking facilities utilised by the subsidiaries amounted to approximately HK\$184,683,000 (2001: HK\$171,000,000).

Notes to the Financial Statements

For the year ended 31 December, 2002

32. RELATED PARTY TRANSACTIONS

Apart from loan to a jointly controlled entity, amounts due to ultimate holding company and related parties and promissory notes to related parties disclosed in the balance sheet, the Group had the following related party transactions during the year:

- (1) Pursuant to a co-operative agreement dated 4 February, 2002 entered into amongst Smart Bloom Holdings Limited and Vast Union Investments Limited (“Vast Union”), both are wholly-owned subsidiaries of the Company, and Shanghai Shimao Jianshe Company Limited (“Shanghai Shimao”), a subsidiary of Shanghai Shi Mao Co., Ltd. of which Mr. Hui Wing Mau is a director, Vast Union and Shanghai Shimao have established a sino-foreign equity joint venture (“JV Company”) for the purpose of acquiring a land property from an independent third party and engaging in property development on the said land property. The total investment of the JV Company contributed by Vast Union amounted to US\$27,000,000 (approximately HK\$210,260,000) of which US\$9,000,000 (approximately HK\$70,250,000) was in the form of registered capital and US\$18,000,000 (approximately HK\$140,010,000) was in the form of shareholder’s loan.
- (2) Pursuant to an underwriting agreement dated 4 February, 2002 (the “Underwriting Agreement”) entered into between the Company and Perfect Zone, Perfect Zone acted as the underwriter to underwrite not less than 328,981,800 Right Shares (as defined in the Underwriting Agreement) of HK\$0.10 each by way of a rights issue on the basis of Seven Rights Shares for every ten existing shares held on the Record Date (as defined in the Underwriting Agreement) at HK\$0.65 per Rights Share. Mr. Hui Wing Mau and Ms. Hui Mei Mei, Carol, both directors of the Company, are also directors of Perfect Zone.
- (3) Pursuant to the agreements dated 29 May, 2002 entered into between Sparkle Talent, a wholly-owned subsidiary of the Company, and Shimao Group in which Mr. Hui Wing Mau, a director of the Company, has a beneficial interest, Sparkle Talent acquired from Shimao Group (i) the entire issued share capital of DFH and the shareholder’s loan of DFH of approximately HK\$18,868,000 at a total consideration of HK\$70 million, which was satisfied by the issue of a promissory note of HK\$70 million, and (ii) the entire issued share capital of IT and the shareholder’s loan of IT of approximately HK\$42,453,000 at a total consideration of HK\$80 million, which was satisfied by the issue of a promissory note of HK\$80 million. The promissory notes bear interest at 1.5% per annum with the expiry date on 31 December, 2005.

Up to the balance sheet date, promissory notes with an aggregate amount of HK\$30,000,000 had been redeemed by the Group.

- (4) During the year, the Group entered into the following related party transactions:

	Ultimate holding company		Related companies in which certain directors have beneficial interests		JV company	
	2002 HK\$’000	2001 HK\$’000	2002 HK\$’000	2001 HK\$’000	2002 HK\$’000	2001 HK\$’000
Interest expenses	54	–	846	–	–	–
Interest income	–	–	–	–	1,861	–
Service fee income	–	–	1,212	–	–	–

These transactions were transacted at prices agreed between the parties and in accordance with the relevant agreements governing the transactions.