1. BASIS OF PREPARATION

(a) GENERAL

The Company is a public listed company incorporated in Bermuda on 13 May 1999 as an exempt company under the Company Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(b) PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are property development and investment.

(c) GROUP FINANCIAL STATEMENTS

The Group financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. 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 are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants (the "HKSA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of these standards has resulted in a change in the format of presentation of the cash flow statement and the statements of changes in equities, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

(a) REVENUE RECOGNITION

(i) Revenue arising from properties held for resale is recognised upon the signing of the sale and purchase agreements or the issue of an occupation permit by the relevant government authorities, whichever is the later.

(ii) Operating lease rental income is recognised on a straight-line basis over the period of the respective leases.

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) Revenue from service agreements is recognised pro-rata over the life of the agreement corresponding to notional delivery of the services.

(b) BORROWING COSTS

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) GOODWILL

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

– for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses; and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is capitalised at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) GOODWILL *(Continued)*

In respect of any negative goodwill not yet recgonised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(d) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than investment properties are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

Subsequent expenditure relating to an asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) INVESTMENT PROPERTIES

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with rental income being negotiated at arm's length.

Investment properties are stated in the balance sheet at their open market value on the basis of period end valuation carried out annually by persons holding a recognised professional qualification in valuing properties and having recent post-qualification experience in valuing properties in the location and in the category of the properties concerned; and at least every three years by an external valuer with similar qualifications. Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining periods of the leases.

Changes in the value of investment properties are treated as movements in an investment property revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged. Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

(of) PROPERTIES HELD FOR DEVELOPMENT FOR SALE

Properties held for development for sale are investments in land and buildings under construction less provision for foreseeable losses, if any. The investments are carried at cost which includes development and construction expenditure incurred and interest and other costs directly attributable to the development.

(g) PROPERTY DEVELOPMENT

Properties under development are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

Properties held for sale are stated at the lower of cost and the estimated net realisable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals receivables/payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

(i) AMORTISATION AND DEPRECIATION

Property, plant and equipment are depreciated at rates sufficient to write off their cost less residual value and accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land	Over the lease term
Land use rights	Over the lease term
Buildings	2.5% or over the lease term, whichever is shorter
Leasehold improvements	20% – 33$^1/_3$%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

(j) IMPAIRMENT OF ASSETS

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investments in subsidiaries and associates; and

– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) IMPAIRMENT OF ASSETS *(Continued)*

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(k) SUBSIDIARIES

A subsidiary is a company in which the Group or Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) ASSOCIATES

An associate is a company in which the Group or Company has significant influence and which is neither a subsidiary nor a joint venture of the Group or the Company.

The interests in associates are stated at cost less provision, if necessary, for any impairment loss, such provision being determined for each associate individually. The results of associates are accounted for to the extent of dividends received and receivable.

The interests in associates are accounted for in the consolidated balance sheet under the equity method whereby the investments are initially recorded at cost and adjusted thereafter for the post acquisition change in the Company's share of net assets of the associates. The results of the associates are accounted for in the consolidated income statement to the extent of the Company's share of the associates' results of operations.

(m) INVESTMENT IN A PROPERTY DEVELOPMENT JOINT VENTURE

Investment in a property development joint venture represents the consideration paid to a third party for acquiring the 5% interest of the income arising from a property development project which is operated by the Group. The investment is stated at cost, less provision for impairment in value, if necessary and the cost is amortised over the estimated economic life of the property development project.

(n) TRADE RECEIVABLE

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

(o) CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) DEFERRED TAXATION

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realization is assured beyond reasonable doubt.

(r) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising in these cases are dealt with in the income statement.

The accounts of subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising are dealt with as movement in translation reserves.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) RETIREMENT COSTS

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

The Group's contributions to the defined contribution retirement benefit scheme of the subsidiaries outside Hong Kong are expensed as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(t) SEGMENT REPORTING

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

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

3. TURNOVER

Turnover represents the aggregate of net amounts received and receivable for developed properties sold by the Group to outside customers and property rental income during the year, and is analysed as follows:

	2002	2001
	HK$'000	*HK$'000*
Sales of developed properties	**68,875**	78,675
Property rental	**3,286**	4,190
	72,161	82,865

No geographical analysis are presented for the year as substantially all the Group's turnover and contribution to results were derived from the business of property in the People's Republic of China (the "PRC").

4. OTHER REVENUE

	2002	2001
	HK$'000	*HK$'000*
Project management fee	**–**	9,730
Interest income	**985**	169
Gain on disposals of subsidiaries	**676**	–
Other	**2,949**	3,183
	4,610	13,082

5. PROFIT FROM OPERATIONS

Profit from operations is stated at after crediting and charging the following:

	2002	2001
	HK$'000	*HK$'000*
Crediting		
Gross rents from investment properties *(Note)*	**3,286**	4,190
Net foreign exchange gain	**–**	847
Charging		
Auditors' remuneration	**291**	238
Cost of inventories sold	**46,850**	51,699
Depreciation		
– owned assets	**1,164**	521
– asset held under a hire purchase contract	**–**	83
Net foreign exchange loss	**896**	–
Operating lease rental in respect of rented premises	**752**	796
Impairment loss of properties held for sale	**382**	115
Impairment loss of investment properties	**926**	1,060
Staff costs		
– Services wages and other benefits	**3,929**	3,637
– Contribution to defined contribution plan	**70**	66

Note: The outgoings related to the gross rents from investment properties for each of the two years ended 31 December 2002 and 2001 are negligible.

6. FINANCE COSTS

	2002	2001
	HK$'000	*HK$'000*
Interest on		
Bank loans, overdrafts and other borrowings wholly repayable		
– within five years	**8,947**	4,972
– over five years	**1,875**	1,198
Hire purchase contracts	**–**	41
	10,822	6,211
Less: Amounts capitalised in properties under development for sale	**(4,847)**	(2,563)
	5,975	3,648

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002	2001
	HK$'000	*HK$'000*
Directors' emoluments:		
Fees		
Executive directors	**–**	–
Independent non-executive directors	**–**	–
	–	–
Other emoluments (executive directors):		
Salaries	**1,212**	1,166
Other benefits	**–**	217
Provident fund contributions	**34**	35
	1,246	1,418
	1,246	1,418

The other benefits under other emoluments represent the estimated monetary value of premises provided rent free to certain directors.

The emoluments were paid to the directors as follows:

	Number of directors	
	2002	2001
HK$Nil to HK$1,000,000	**6**	7

Individuals with highest emoluments

During the year, the five highest paid individuals included three (2001: three) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2001: two) highest paid individual were as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other benefits	**677**	577
Provident fund contributions	**14**	16
	691	593

8. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's income neither arises in, nor is derived from, Hong Kong in both years.

PRC income tax for enterprises is calculated at 15% of the estimated assessable profit for the year (2001: 15%).

PRC income tax for property development projects arose from the sales of developed properties in the PRC. Pursuant to several tax co-ordination agreements signed between the Group and a co-operative partner, the co-operative partner is primarily responsible for income tax arising from the relevant projects. The Group is required to pay to the co-operative partner its share of income tax arising from the projects at an amount equal to 1% of the gross amounts received and receivable for developed properties sold and the co-operative partner assumed the responsibilities to discharge all income tax arising from the projects to the relevant governmental authorities.

	2002	2001
	HK$'000	*HK$'000*
Subsidiaries		
Income tax in other regions of the PRC		
– Enterprises	**322**	–
– Property development projects	**–**	132
Associate		
Income tax in other regions of the PRC	**61**	5
	383	137

Details of the potential deferred tax credit not provided for in the year are set out in note 28.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's net loss for the year, a loss of HK$4,336,000 (2001: HK$377,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

The directors do not recommend any dividend for the year.

11. LOSS PER SHARE

The calculation of loss per share is based on the loss for the year of HK$5,434,000 (2001: HK$3,818,000) and on the weighted average number of 1,795,492,000 (2001: HK$1,384,390,000) shares issued during the year.

No diluted earnings per share has been presented as the exercise of the Company's options does not have any material dilutive effect.

12. INVESTMENT PROPERTIES

	The Group
	HK$'000
At 1 January 2002	28,699
Deficit on revaluation	(2,826)
Disposals	(86)
At 31 December 2002	25,787

Investment properties were revalued at 31 December 2002 by Sallmanns (Far East) Limited, an independent professional valuer, on an open market value basis. This valuation gave rise to a revaluation deficit of HK$2,826,000 (2001: HK$3,005,000) of which HK$1,900,000 (2001: HK$1,945,000) and HK$926,000 (2001: HK1,060,000) have been charged to the investment property revaluation reserve and the consolidated income statement respectively.

Investment properties having a carrying amount of HK$299,000 (2001: HK$299,000) are in the process of obtaining the land and realty title certificates.

All the Group's investment properties are situated outside Hong Kong and are held on long leases.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2002	2001
	HK$'000	*HK$'000*
Within one year	**2,136**	4,152
In the second to fifth year inclusive	**10**	2,689
	2,146	6,841

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Leasehold improvements *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost					
At 1/1/2002	7,698	2,896	562	2,210	13,366
Additions	26,166	65	–	103	26,334
Disposals	–	(162)	–	–	(162)
At 31/12/2002	33,864	2,799	562	2,313	39,538
Accumulated depreciation					
At 1/1/2002	2,153	2,413	301	1,755	6,622
Charge for the year	727	151	153	133	1,164
Eliminated on disposal	–	(154)	–	–	(154)
At 31/12/2002	2,880	2,410	454	1,888	7,632
Net book value					
At 31/12/2002	30,984	389	108	425	31,906
At 31/12/2001	5,545	483	261	455	6,744

The net book value of land and buildings shown above comprises:

	2002 ***HK$'000***	2001 *HK$'000*
Land and buildings situated in Hong Kong and held on long leases	**5,727**	5,112
Land and buildings situated outside Hong Kong and held on long leases	**25,257**	433
	30,984	5,545

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**159,056**	159,056

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1999.

Details of the Company's subsidiaries at 31 December 2002 are as follows:

Name of subsidiary	Place/ country of incorporation (or establishment)/ operation	Proportion of nominal value of issued capital/registered capital held by the Company		Issued and fully paid share capital/ registered capital	Principal activities
		Directly	Indirectly		
Grand Field Group Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	100%	–	US$1	Investment holding
Grand Field Group Investments (BVI) Limited	British Virgin Islands/ Hong Kong	100%	–	US$1	Investment holding
Grand Field Group Limited	Hong Kong	–	100%	Ordinary shares of HK$200 non-voting deferred shares of HK$200	Investment holding and property development
Grand Field Property Development (Shenzhen) Company Limited *(Note1)*	PRC	–	100%	RMB19,232,100	Property development

14. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place/ country of incorporation (or establishment)/ operation	Proportion of nominal value of issued capital/registered capital held by the Company Directly	Indirectly	Issued and fully paid share capital/ registered capital	Principal activities
Ka Fong Industrial Company, Limited	Hong Kong/ PRC	–	100%	Ordinary shares of HK$200 non-voting deferred shares of HK$200,000	Property development
Kwan Cheung Holdings Limited	Hong Kong/ PRC	–	100%	Ordinary shares of HK$200 non-voting deferred shares of HK$200	Property development
Shing Fat Hong Limited	Hong Kong/ PRC	–	100%	Ordinary shares of HK$4 non-voting deferred shares of HK$2	Property development
Chintex Gas Company Limited (Formerly known as Chintex Oil And Gas Company Limited)	Hong Kong	–	100%	Ordinary shares of HK$103,700,000	Investment holding
Chinese Medicine And Technologies Company Limited	Hong Kong	–	100%	Ordinary shares of HK$2	Inactive

14. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place/ country of incorporation (or establishment)/ operation	Proportion of nominal value of issued capital/registered capital held by the Company Directly	Indirectly	Issued and fully paid share capital/ registered capital	Principal activities
Grand Field New Energy Company Limited	Hong Kong	–	100%	Ordinary shares of HK$2	Property holding
Sino Richest Limited ("Sino Richest") *(Note 2)*	Hong Kong	–	75%	Ordinary shares of HK$10,000	Investment holding
重慶市溢億萬盛燃氣有限公司（「溢億萬盛」）*(Note 3)*	PRC	–	60%	HK$30,000,000	Inactive

Notes:

1) Grand Field Property Development (Shenzhen) Company Limited is a wholly foreign owned enterprise established in the PRC for a term of 24 years up to 2019.

2) Since the China party of the joint venture failed to transfer the ownership of their assets in performing their obligations of capital injection under the joint venture agreement, Sino Richest also did not perform its part of capital injection into 溢億萬盛.

3) 重慶市溢億萬盛燃氣有限公司 is a Sino-foreign joint-equity enterprise established in the PRC for a term of 30 years up to 2032.

15. INTEREST IN AN ASSOCIATE

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares at cost	**28,302**	28,302
Share of post-acquisition profit	**135**	11
Premium on acquisition of an associate	**(27,927)**	(27,927)
	510	386
Amount due from an associate	**1,732**	1,726
	2,242	2,112

The amount is unsecured, interest free and not repayable within one year.

Details of the Group's associate as at 31 December 2002 are as follows:

Name of entity	Form of business structure	Country of registration	Principal country of operation	Registered capital	Proportion of nominal value of registered capital held by the Group %	Nature of business
Bengbu International Travel Service Company Limited (the "Travel Agent")	Incorporated	PRC	PRC	RMB1,500,000	26.5	Travel agent

The Travel Agent has a business licence with a term for 3 years up to 30 September 2003, which will thereafter be extended.

The financial statements of the Travel Agent are not audited by Charles Chan, Ip & Fung CPA Ltd.

The premium on acquisition of associates arose on the acquisition of the Travel Agent in 2002. Amortisation charged in the current year amounting to HK$2,793,000 has been included in the amount reported as share of profits of the associate in the consolidated income statement.

15. INTEREST IN AN ASSOCIATE *(Continued)*

The following details have been extracted from the audited financial statements of the Travel Agent:

Results for the year

	2002	2001
	HK$'000	*HK$'000*
Turnover	**5,747**	3,786
Profit from ordinary activities before taxation	**697**	61
Profit from ordinary activities before taxation attributable to the Group	**185**	16

Financial position

	2002	2001
	HK$'000	*HK$'000*
Non-current assets	**3,028**	3,214
Current assets	**4,284**	3,489
Current liabilities	**(5,389)**	(5,246)
Net assets	**1,923**	1,457
Net assets attributable to the Group	**509**	386

16. GOODWILL

	2002	2001
	HK$'000	*HK$'000*
Cost		
At 1 January	**27,927**	–
Goodwill arising on acquisition of an associate	**–**	27,927
Goodwill arising on acquisition of a subsidiary	**63,006**	–
At 31 December	**90,933**	27,927
Accumulated amortisation		
At 1 January	**1,396**	–
Charge for the year	**2,793**	1,396
At 31 December	**4,189**	1,396
Carrying amount		
At 31 December	**86,744**	26,531

The amortisation period adopted for goodwill is 10 years.

17. LOANS RECEIVABLE

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Total loans receivable, secured	**45,305**	35,808
Less: Portion receivable within one year included under current assets	**(16,215)**	(10,479)
Portion receivable after one year	**29,090**	25,329

Loans receivable represent interest-free instalments payable by the buyers of the developed properties of the Group.

18. INVESTMENT IN A PROPERTY DEVELOPMENT JOINT VENTURE

	The Group
	HK$'000
Cost	
At 1 January 2002 and 31 December 2002	21,600
Amortisation	
At 1 January 2002	3,240
Charge for the year	2,160
At 31 December 2002	5,400
Net book value	
At 31 December 2002	16,200
At 31 December 2001	18,360

19. PLEDGED BANK DEPOSITS

Bank deposits of HK$11,768,000 (2001: HK$50,711,000) have been pledged as security for mortgage loans made available from banks to the buyers of the Group's properties and for general banking facilities granted to the Group.

20. PROPERTIES UNDER DEVELOPMENT FOR SALE

Pursuant to the contracts for development of various projects in the PRC having a net book value of HK$13,092,000 (2001: HK$13,004,000) entered into between the Group and a co-operative partner, the co-operative partner is responsible for making available the project sites while the Group is responsible for, at its own cost, the construction of the properties. The certificates for state-owned land use rights granted for the land were registered in the name of the co-operative partner. Pursuant to those contracts for development, the Group is entitled to apply for land and realty title certificates for each separate unit in the name of the Group upon completion of development.

Included in properties under development for sale is net interest capitalised of HK$4,986,000 (2001: HK$11,196,000) at a capitalisation rate of 9.5% (2001: 7.8%).

21. PROPERTIES HELD FOR SALE

At 31 December 2002, the properties held for sale were situated outside Hong Kong and were held on long leases.

Land and title certificates for properties held for sale of HK$62,314,000 (2001: HK$3,365,000) were under application.

The certificates for state-owned land use rights granted for the land on which the aforesaid properties situated were registered in the name of a co-operative partner. Upon completion of development, the respective certificates for state-owned land use rights are required to be deposited with the relevant authorities for custody in exchange for the issue of land and realty title certificates for each separate unit.

At 31 December 2001, properties held for sale amounted to HK$1,313,000 were carried at net realisable value.

22. INTEREST-BEARING BORROWINGS

	2002	2001
	HK$'000	*HK$'000*
Bank overdrafts	**–**	1,808
Bank loans	**85,394**	125,988
Other loans	**17,682**	16,989
	103,076	144,785
Analysed as:		
Secured	**103,076**	144,785
Unsecured	**–**	–
	103,076	144,785

The maturity of the above borrowings is as follows:

On demand or within one year	**87,743**	130,031
More than one year but not exceeding two years	**2,235**	2,235
More than two years but not exceeding five years	**7,262**	6,705
More than five years	**5,836**	5,814
	103,076	144,785
Less: Amount due within one year shown under current liabilities	**(87,743)**	(130,031)
Amount due after one year	**15,333**	14,754

23. TRADE PAYABLES, DEPOSITS AND ACCRUALS

Included in trade payables, deposits and accruals are trade creditors with the following ageing analysis:

	2002	2001
	HK$'000	*HK$'000*
Current to 90 days	**741**	19,366
91 to 180 days	**62**	–
181 to 360 days	**26**	4,672
Over 360 days	**8,345**	14,249
	9,174	38,287

24. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest free and there is no fixed term of repayment.

25. ISSUED CAPITAL

	2002		2001	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised (ordinary shares of HK$0.02 each)				
At 1 January and at 31 December	5,000,000	100,000	5,000,000	100,000
Issued and fully paid (ordinary shares of HK$0.02 each)				
At 1 January	1,464,500	29,290	1,294,500	25,890
Exercise of share options	7,150	143	–	–
Placement of shares	575,000	11,500	170,000	3,400
At 31 December	2,046,650	40,933	1,464,500	29,290

During the year, 7,150,000 options were exercised to subscribe for of HK$0.02 each in the Company at a total consideration of approximately HK$874,000 whereas in 2001, no options were exercised to subscribe for any ordinary shares.

In February and September 2002, the Company placed and issued 260,000,000 and 315,000,000 (2001:170,000,000) new ordinary shares of HK$0.02 (2001: HK$0.02) each at a price of HK$0.135 and HK$0.2 (2001: HK$0.16 per share) respectively.

26. SHARE OPTIONS

Pursuant to the Company's share option scheme which became effective on 4 August 1999, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the grant of the options and the nominal value of the shares.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme.

The summary of movements in share options of certain directors and employees of the Group under the share option scheme was as follows:

			Number of share options			
Date of grant	**Exercise price**	**Exercise period**	**Outstanding at 1/1/2002**	**Granted during the year**	**Exercised during the year**	**Outstanding at 31/12/2002**
	HK$					
25 January 2000	0.1824	25 January 2000 to 24 January 2003	3,500,000	–	(750,000)	2,750,000
16 August 2000	0.2002	16 August 2000 to 16 August 2003	19,800,000	–	(1,000,000)	18,800,000
29 October 2001	0.0839	1 November 2001 to 28 October 2004	17,000,000	–	(2,350,000)	14,650,000
30 January 2002	0.1581	4 February 2002 to 29 January 2005	–	26,000,000	(3,050,000)	22,950,000
			40,300,000	26,000,000	(7,150,000)	59,150,000

27. WARRANTS

On 15 March 2002, the Group granted and issued to Mr. Tsang Wai Lun, Wayland, Madam Kwok Wai Man, Nancy and Mr. Lau Tam Wah a total of 153,160,000 warrants to subscribe for new shares at the initial subscription price of HK$0.435 per new share (subject to adjustment), exercisable only during the period from 14 September 2004 to 13 March 2005 (both days inclusive). The total subscription consideration is approximately HK$66.6 million.

28. DEFERRED TAXATION

A deferred tax asset of the Group amounting to HK$561,000 (2001: HK$561,000) 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.

The Group does not have any intention to dispose of the investment properties in the PRC in the foreseeable future. Accordingly, no deferred taxation has been provided on the revaluation surplus of these properties.

The Company and the Group did not have any significant timing differences arising during the year or at the balance sheet date.

29. ACQUISITION OF A SUBSIDIARY

In December 2002, the Group acquired 75% of the issued capital of Sino Richest Limited at a consideration of HK$63,000,000. This transaction has been accounted for using the purchase method of accounting.

	2002	2001
	HK$'000	*HK$'000*
Net liabilities of the subsidiary acquired		
Amount due to a director	**(6)**	–
Goodwill arising on acquisition	**63,006**	–
	63,000	–
Satisfied by shares allotted	**63,000**	–

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing during the year

	Share capital (including premium)	Bank and other loans	Obligations under hire purchase contracts	Amount due to a director	Amount due to a minority shareholder of a subsidiary
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1/1/2001	78,876	71,580	135	13,657	5,257
Issue of shares upon placement of shares	27,200	–	–	–	–
Expenses incurred in connection with issue of shares	(614)	–	–	–	–
Repayment during the year	–	–	(135)	(661)	(5,257)
Raised during the year	–	71,397	–	–	–
At 31/12/2001 and 1/1/2002	105,462	142,977	–	12,996	–
Issue of shares upon placement of shares	98,100	–	–	–	–
Share issued under share option scheme	1,017	–	–	–	–
Expenses incurred in connection with issue of shares	(200)	–	–	–	–
(Repayment)/advanced during the year	–	(40,593)	–	29,787	–
Raised during the year	–	692	–	–	–
At 31/12/2002	204,379	103,076	–	42,783	–

(b) Major non-cash transaction

The Group acquired the investment in a land included in deposits for acquisition of land at a consideration of HK$35,100,000 which has been satisfied by the issue of 260,000,000 shares of the Company of HK$0.135 each.

31. CHARGES ON ASSETS

Land and buildings, investment properties and properties held for sales of the Group with carrying amounts of approximately HK$5,172,000 (2001: HK$5,262,000), HK$23,623,000 (2001: HK$26,226,000) and HK$26,125,000 (2001: HK$34,055,000) respectively have been pledged to banks to secure banking facilities granted to the Group.

Land and buildings, investments properties and properties under development for sale of the Group with carrying amounts of approximately HK$424,000, HK$1,346,000 and HK$31,630,000 respectively have been pledged to banks to secure loans of RMB44,230,000 granted to a third party. No such pledges were made in 2001.

32. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities in respect of bills discounted and guarantees given to banks in relation to mortgage loans made available to the buyers of the developed properties of the Group amounting to approximately HK$35,000,000 and HK$1,118,000 (2001: HK$1,432,000) respectively.

33. COMMITMENTS

(a) At 31 December 2002, the Group had the following capital commitments:

	2002	2001
	HK$'000	*HK$'000*
Capital expenditure in respect of property development projects:		
Contracted but not provided for	**45,484**	45,329
Authorised but not contracted for	**8,083**	8,177
	53,567	53,506
Capital expenditure in respect of capital contribution to a PRC subsidiary:		
Contracted but not provided for	**24,000**	–
	77,567	53,506

(b) Operating lease commitments

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

	2002	2001
	HK$'000	*HK$'000*
Within one year	**365**	1,044
In the second to fifth year inclusive	**–**	483
	365	1,527

34. PRIOR YEAR ADJUSTMENT

Goodwill is restated by the adoption of SSAP 30 "Business Combination". This change results in a prior year adjustment as at 31 December 2001 by increasing both goodwill and equity by HK$26,531,000.

35. LONG SERVICE PAYMENTS

At 31 December 2002, the Group had a number of employees who had completed the required number of years of service under Hong Kong's Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31 December 2002 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK$776,000 (2001: HK$679,000). No provision has been made in the financial statements in respect of such long service payments.

36. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

37. LITIGATION UNDER PROGRESS

(i) One of the subsidiaries of the Group is a defendant in a lawsuit brought by a contractor during 2001 claiming the refund of approximately HK$2,098,000 together with interests relating to cash advanced.

(ii) One of the subsidiaries of the Group is a defendant in a lawsuit brought by a contractor during 2002 claiming the payment of construction cost approximately HK$15,368,000.

The subsidiaries appealed to contest the claim strongly and, while the final outcome of the proceedings is uncertain, it is the management's opinion that the ultimate liability, if any, will not have a material impact upon the financial position of the subsidiary and the Group.

38. RELATED PARTY TRANSACTIONS

During the year, the Group had the following related party transactions which were carried out in the normal course of its business:

Name of related parties	**Nature of related party relationship**	**Nature of Transactions**	**Amount received**	
			2002	2001
			HK$'000	*HK$'000*
Grand Field International Travel Company Limited	Related company	Sub-rental income	**98**	49
Hong Kong Technology (China) Company Limited	Related company	Sub-rental income	–	287

39. COMPARATIVE FIGURES

With a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transaction. Accordingly, comparative figures have been reclassified to conform to the current year's presentation.