Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at valuation.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003. The effect of adopting this new SSAP is set out in note 1(e).

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account 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 taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(ii) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activity of the entity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(c) Fixed assets

(i) 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, any rental income being negotiated at arm's length.

The investment properties are stated at open market value based on an annual professional valuation at the balance sheet date. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to profit and loss account. Any subsequent increases are credited to operating profit up to the amount previously debited.

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 profit and loss account.

No depreciation is provided on investment properties held on leases of more than twenty years.

(ii) Other fixed assets

Other fixed assets, including other properties which are interests in land and buildings other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated to write off the cost of assets over their estimated useful lives, using the straight line method. Estimated useful lives are summarised as follows:

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets *(Continued)*

(ii) Other fixed assets (Continued)

Land held on long or medium term leases	Unexpired period of the lease
Buildings	The shorter of the lease term and 50 years
Leasehold improvements	5 years or over the relevant lease period
Furniture, office equipment and motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives. The carrying amounts of fixed assets are reviewed regularly. When the recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amount. Expected future cash flows have been discounted in determining the recoverable amount.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amounts of the assets and are dealt with in the profit and loss account.

(d) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(e) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Deferred taxation *(Continued)*

In prior year, deferred taxation was accounted for at the current taxation rate 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 an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 20 to the accounts, investment properties revaluation reserve and capital reserve at 1st January 2003 have been reduced by HK$165,000 and HK$29,014,000 respectively, which represent the unprovided deferred taxation. The profit and loss account for the year ended 31st December 2002 has also been charged by HK$1,197,000, resulting in a total increase in deferred taxation at 31st December 2002 by HK$30,376,000.

(f) Properties under development

Properties under development are stated at cost less provision for any foreseeable loss. Cost comprises land cost, development expenditure, professional fees and interest capitalised.

(g) Accounts receivable

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

(h) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(i) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Pension obligations

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable to such operating leases, net of incentives received from the lessors, are charged to the profit and loss account on a straight line basis over the periods of the leases.

(l) Revenue recognition

The recognition of revenue and profits from the sale of properties under development in advance of completion commences when a legally binding contract of sale has been executed and when the total construction costs of the properties under development can be reliably estimated. Profit is recognised over the course of the development and is computed each year as a proportion of the total estimated profit to completion; the proportion used being the actual construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowances for contingencies). The profit so recongised is restricted to the amount of sales proceeds received from each sale contract.

Sales proceeds received are initially recorded as advanced proceeds received from customers under current liabilities. Upon the recognition of sales based on the percentage of completion of the relevant properties, the amount of sales proceeds received that should be recognised as income are transferred to progress revenue received under properties under development.

Rental income is recognised on a straight line accrual basis over the terms of lease agreements or on a specified basis according to the terms of lease agreements.

Property management services fee income is recognised when services are rendered.

Dividend income is recognised when the right to receive payment is established.

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

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Capitalisation of interest and finance charges

Interest and finance charges on borrowings relating to properties under development are included in the cost of the development during the period of development. All other borrowing costs are expensed in the profit and loss account in the year in which they are incurred.

(n) Translation of foreign currencies

Transactions in foreign currencies 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. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries 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 account is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

2. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

The Group is principally engaged in property investment and development of property projects in Hong Kong and Mainland China. Turnover comprises gross proceeds from sales of properties and revenue from rental operation.

	2003 HK$'000	2002 HK$'000
Company and subsidiaries		
Sales of properties	–	12,009
Rental income	**8,334**	4,336
Property management services fee income	–	719
	8,334	17,064
Share of a jointly controlled entity		
Sales of properties	**570,707**	90,426
	579,041	107,490

2. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment 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

Year ended 31st December 2003	Property development HK$'000	Property investment HK$'000	Other operations HK$'000	Total HK$'000
Segment turnover				
Company and subsidiaries	–	8,334	–	8,334
Share of a jointly controlled entity	570,707	–	–	570,707
	570,707	8,334	–	579,041
Segment results	(948)	5,449	–	4,501
Other operating income				5,851
Corporate administrative expenses				(23,248)
Operating loss before financing				(12,896)
Finance costs				(4,811)
Share of profit of a jointly controlled entity	192,610	–	–	192,610
Profit before taxation				174,903
Taxation				(30,629)
Profit for the year				144,274

	Property development HK$'000	Property investment HK$'000	Other operations (including corporate items) HK$'000	Total HK$'000
Capital expenditure	–	–	3,011	3,011
Depreciation	–	–	2,276	2,276

2. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Business segments *(Continued)*

Results (as restated)

Year ended 31st December 2002	Property development HK$'000	Property investment HK$'000	Other operations HK$'000	Total HK$'000
Segment turnover				
Company and subsidiaries	12,009	4,336	719	17,064
Share of a jointly controlled entity	90,426	–	–	90,426
	102,435	4,336	719	107,490
Segment results	(143,512)	2,862	(92)	(140,742)
Other operating income				3,438
Gain on disposal of subsidiaries				2,887
Corporate administrative expenses				(21,209)
Operating loss before financing				(155,626)
Finance costs				(7,670)
Share of profit of a jointly controlled entity	3,101	–	–	3,101
Loss before taxation				(160,195)
Taxation				(2,117)
Loss for the year				(162,312)

	Property development HK$'000	Property investment HK$'000	Other operations (including corporate items) HK$'000	Total HK$'000
Capital expenditure	22	–	55,509	55,531
Depreciation	1,398	17	71	1,486
Provision for properties under development	107,309	–	–	107,309
Write-down of completed properties held for sales	15,210	–	–	15,210
Revaluation deficit of leasehold land and buildings	12,349	–	–	12,349

2. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Business segments *(Continued)*

Balance sheet

Year ended 31st December 2003	**Property development HK$'000**	**Property investment HK$'000**	**Other operations HK$'000**	**Total HK$'000**
Assets				
Segment assets	**98,792**	**482,370**	**–**	**581,162**
Jointly controlled entity	**236,286**	**–**	**–**	**236,286**
Unallocated corporate assets				**97,281**
				914,729
Liabilities				
Segment liabilities	**38,420**	**215,274**	**–**	**253,694**
Unallocated corporate liabilities				**120,965**
				374,659

Balance sheet (as restated)

Year ended 31st December 2002	**Property development** HK$'000	**Property investment** HK$'000	**Other operations** HK$'000	**Total** HK$'000
Assets				
Segment assets	76,950	397,572	–	474,522
Jointly controlled entity (including loan to)	149,202	–	–	149,202
Unallocated corporate assets				86,726
				710,450
Liabilities				
Segment liabilities	47,221	237,463	–	284,684
Unallocated corporate liabilities				85,753
				370,437

2. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Geographical segments

The Group's operations are mainly located in Hong Kong and Mainland China.

All the turnover of the Group were derived in Mainland China.

The following is an analysis of the segment results, carrying amount of segment assets, and capital expenditure analysed by the geographical area in which the assets are located:

Year ended 31st December 2003	**Segment results HK$'000**	**Segment assets HK$'000**	**Capital expenditure HK$'000**
Hong Kong	**(26,555)**	**461,428**	**3,011**
Mainland China	**170,829**	**453,301**	**–**
	144,274	**914,729**	**3,011**

Year ended 31st December 2002 (as restated)	Segment results HK$'000	Segment assets HK$'000	Capital expenditure HK$'000
Hong Kong	(31,002)	347,248	55,451
Mainland China	(131,310)	363,202	80
	(162,312)	710,450	55,531

3. OPERATING LOSS BEFORE FINANCING

	2003 HK$'000	2002 HK$'000
Operating loss before financing is stated after crediting and charging the following:		
Crediting		
Gross rental income from investment properties	**8,334**	4,336
Interest income	**562**	2,080
Gain on disposal of subsidiaries	**–**	2,887
Charging		
Staff costs (including directors' emoluments)		
Salaries and other benefits	**14,139**	11,916
Contribution to retirement benefits scheme	**205**	198
	14,344	12,114
Cost of properties sold	**–**	13,863
Depreciation	**2,276**	1,486
Operating lease rentals in respect of land and buildings	**884**	1,363
Auditors' remuneration	**435**	350
Loss on disposal of fixed assets	**–**	317
Outgoings in respect of investment properties	**79**	245

4. FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Interest on bank loans	**5,091**	11,316
Interest on promissory notes wholly repayable within five years	**909**	900
	6,000	12,216
Amount capitalised in properties under development	**(1,189)**	(4,546)
	4,811	7,670

5. RETIREMENT BENEFITS SCHEME

The Group has operated a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong since 1st December 2000. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

The Group also contributes to retirement plans for its employees in the Mainland China at a percentage in compliance with the requirements of the respective municipal governments in the People's Republic of China ("PRC").

The assets of all retirement schemes are held separately from those of the Group in independently administered funds. The total cost charged to the profit and loss account amounts to HK$205,000 (2002: HK$198,000).

6. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Details of the directors' emoluments are as follows:

	2003 HK$'000	2002 HK$'000
Fees	**6,827**	3,978
Contribution to retirement benefits scheme	**48**	35
	6,875	4,013

The emoluments of the directors are within the following bands:

	Number of directors	
	2003	2002
Nil – HK$1,000,000	**2**	4
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**3**	1

Fees include HK$120,000 (2002: HK$120,000) paid to independent non-executive directors during the year. There were no other emoluments paid to independent non-executive directors during the year (2002: Nil).

None of the directors has waived his right to receive his emoluments (2002: Nil).

6. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(Continued)*

(b) Of the five individuals with the highest emoluments in the Group, four (2002: four) are directors of the Company, whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2002: one) highest paid individual are as follows:

	2003 HK$'000	2002 HK$'000
Salaries and other benefits	**650**	650
Contribution to retirement benefits scheme	**12**	12
	662	662

7. TAXATION

	2003 HK$'000	2002 HK$'000
Income tax in the PRC		
Current		
Company and subsidiaries	**531**	455
Deferred		
Company and subsidiaries	**888**	1,197
A jointly controlled entity	**29,210**	465
	30,629	2,117

No provision for Hong Kong profits tax has been made within the Group as the Group has no assessable profit in Hong Kong for the year (2002: Nil). The PRC income tax has been provided on the estimated assessable profits of subsidiaries operating in the Mainland China at the applicable rate of taxation.

The Group's jointly controlled entity established in the Pudong New Area of the PRC is required to pay income tax at a preferential rate of 15% (2002: 15%).

7. TAXATION *(Continued)*

The tax of the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the provinces in the PRC in which the Group operates, as follows:

	2003 HK$'000	2002 HK$'000
Profit/(loss) before taxation	**174,903**	(160,195)
Tax calculated at applicable tax rate	**26,729**	(23,424)
Tax losses not recognised	**4,582**	3,717
Utilisation of previously unrecognised tax losses	**(1,328)**	(348)
Expenses not deductible for tax purpose	**–**	21,579
Other items	**646**	593
Taxation charge	**30,629**	2,117

8. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$7,588,000 (2002: loss of HK$149,340,000).

9. DIVIDEND

At the board meeting held on 26th February 2004, the directors proposed to pay a special dividend of HK$0.06 per ordinary share, totaling HK$49,658,000 (2002: Nil). The proposed special dividend is conditional upon the proposal for the reduction of the share premium account of the Company being approved by the shareholders of the Company at the forthcoming annual general meeting to be held on 2nd April 2004 and becoming effective. The dividend payable will be reflected as an appropriation of contributed surplus of the Company for the year ending 31st December 2004.

10. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the profit attributable to shareholders of HK$144,274,000 (2002: loss of HK$162,312,000) and the weighted average of 827,418,282 (2002: 749,962,841) ordinary shares in issue during the year.

11. FIXED ASSETS

Group

	Investment properties	Leasehold land and buildings	Leasehold improvements	Furniture, office equipment and motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation					
At 1st January 2003	394,741	51,923	2,887	804	450,355
Additions	24,258	–	1,968	1,043	27,269
Revaluation surplus	55,001	–	–	–	55,001
At 31st December 2003	**474,000**	**51,923**	**4,855**	**1,847**	**532,625**
Accumulated depreciation					
At 1st January 2003	–	–	–	84	84
Charge for the year	–	1,058	890	328	2,276
At 31st December 2003	**–**	**1,058**	**890**	**412**	**2,360**
Net book value					
At 31st December 2003	**474,000**	**50,865**	**3,965**	**1,435**	**530,265**
At 31st December 2002	394,741	51,923	2,887	720	450,271

11. FIXED ASSETS *(Continued)*

Notes:

(a) At 31st December 2003, the investment properties were revalued on an open market value and existing use basis by Chesterton Petty Limited, an independent professional valuers, and are held under the following terms:

	2003 HK$'000	2002 HK$'000
Long lease in Hong Kong	**260,000**	180,741
Long lease in Mainland China	**214,000**	214,000
	474,000	394,741

At 31st December 2003, the Group's investment properties situated in Hong Kong and Mainland China of approximately HK$260,000,000 (2002: HK$180,741,000) and HK$4,057,000 (2002: HK$4,057,000), respectively, were pledged to secure a long-term bank loan *(Note 18)* and a short-term bank loan.

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

	2003 HK$'000	2002 HK$'000
Long leases in Hong Kong	**50,865**	51,923

At 31st December 2003, the Group's leasehold land and buildings situated in Hong Kong of approximately HK$50,865,000 (2002: HK$51,923,000) were pledged to secure a long-term bank loan *(Note 18)*.

12. JOINTLY CONTROLLED ENTITY

	Group	
	2003 HK$'000	2002 HK$'000
Unlisted investment, at cost	**70,250**	70,250
Share of undistributed post-acquisition reserves	**166,036**	2,636
Share of net assets	**236,286**	72,886

12. JOINTLY CONTROLLED ENTITY *(Continued)*

As at 31st December 2003, the Group had interest in the following jointly controlled entity:

Name of entity	Place of registration	Registered capital	Attributable interest	Principal activities
Shanghai Shimao Hubin Real Estate Company Limited ("Shimao Hubin")	PRC	US$18 million	50%	Property development

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

Set out below is a summary of financial information of the jointly controlled entity for the year ended 31st December 2003:

(a) Results

	2003 HK$'000	From 19th April 2002 (date of incorporation) to 31st December 2002 HK$'000
Turnover	**1,141,414**	180,852
Profit after taxation	**326,800**	5,272
Profit after taxation attributable to the Group	**163,400**	2,636

(b) Net assets

	2003 HK$'000	2002 HK$'000
Non-current assets	**3,328**	1,297
Current assets	**1,707,684**	800,728
Current liabilities	**(1,238,440)**	(561,956)
Non-current liabilities	**–**	(94,297)
	472,572	145,772
Net assets attributable to the Group	**236,286**	72,886

12. JOINTLY CONTROLLED ENTITY *(Continued)*

(c) As at 31st December 2003, Shimao Hubin had provided guarantees amounting to HK$1,320,000,000 (2002: HK$336,000,000) in respect of the mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, Shimao Hubin is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and Shimao Hubin is entitled to take over the legal title and possession of the related properties.

The directors of Shimao Hubin consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the accounts for the guarantees.

(d) Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the regulations on 27th January 1995 in the PRC, effective from 1st January 1994, all gains arising from the transfer of real estate properties in the PRC are subject to LAT at progressive rates of up to 60%. Notwithstanding these provisions, an exemption to LAT for a period of five years is applicable to property development contracts which were signed before 1st January 1994. This exemption to LAT expired on 31st December 1998.

No provision for LAT has been made in the accounts since Shimao Hubin has not been required by the relevant authorities to pay LAT and the directors of Shimao Hubin consider that it is unlikely to receive demands from the tax authorities in the PRC for payment of LAT amounting to approximately HK$94,800,000 (2002: HK$7,264,000) in relation to the sales recognised on or before 31st December 2003.

13. PROPERTIES UNDER DEVELOPMENT

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

At 31st December 2003, the Group's properties under development of approximately HK$98,792,000 (2002: HK$76,950,000) were pledged to secure a long-term bank loan *(Note 18)*.

14. SUBSIDIARIES

	Company 2003 HK$'000	Company 2002 HK$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries, net of provision	**394,281**	321,821
	394,281	321,821

Details of the principal subsidiaries at 31st December 2003 are as follows:

Name	Place of incorporation/ operations	Issued share capital/ registered capital	Attributable interest	Principal activities
Directly held				
Shimao HK Management Company Limited	Hong Kong	HK$2	100%	Management services
Indirectly held				
Champ Master Management Limited	Hong Kong/ Mainland China	HK$2	100%	Property investment
Lanzhou Xinglong Real Estate Development Co., Ltd. *(Note)*	PRC	RMB20,000,000	100%	Property investment
Shimao (Genesis) Company Limited (formerly known as "Advantage Properties Limited")	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	Property investment and development
Shimao (Hong Kong) Investment Limited (formerly known as "Great Cosmos Profits Limited")	BVI/Hong Kong	US$1	100%	Investment holding
Vast Union Investments Limited	BVI	US$1	100%	Investment holding

Note: Established as a wholly-owned foreign enterprise for a period of 50 years commencing from 2nd December 1992.

15. TRADE RECEIVABLES

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

	Group	
	2003	2002
	HK$'000	HK$'000
Current	**490**	–
1 to 60 days	**980**	476
61 to 90 days	**980**	238
Over 90 days	**435**	1,016
	2,885	1,730

16. TRADE PAYABLES

The Group's trade payables mainly comprise costs payable for property development projects which are payable upon completion of work certified by the architects. At 31st December 2003, most of the Group's trade payables were current within their respective terms of credit.

17. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND RELATED COMPANIES

The balances are unsecured, interest free and have no fixed repayment terms.

18. LONG-TERM BANK LOANS

	Group	
	2003	2002
	HK$'000	HK$'000
Secured bank loans	**171,617**	185,655
Current portion included in current liabilities	**(13,067)**	(14,038)
	158,550	171,617

18. LONG-TERM BANK LOANS *(Continued)*

	2003 **HK$'000**	2002 HK$'000
The loans are repayable as follows:		
Within one year	**13,067**	14,038
Between one and two years	**13,067**	13,067
Between two to five years	**36,868**	39,200
After five years	**108,615**	119,350
	171,617	185,655

19. SHARE CAPITAL

	Number of ordinary shares of HK$0.1 each '000	HK$'000
Authorised:		
At 31st December 2002 and 2003	10,000,000	1,000,000
Issued and fully paid:		
At 31st December 2001	313,316	31,332
Rights issue	485,706	48,571
Exercise of warrants	25,959	2,595
At 31st December 2002	824,981	82,498
Exercise of warrants *(Note)*	2,659	266
At 31st December 2003	827,640	82,764

Note:

During the year, 2,658,853 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 of approximately HK$782,000.

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

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.

As at 31st December 2003, there was no outstanding share option and no share options were granted or exercised during the year.

20. RESERVES

Group

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Leasehold land and buildings revaluation reserve HK$'000	Investment properties revaluation reserve HK$'000	Statutory reserve fund HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1st January 2002	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 upon disposals	–	–	–	(347)	–	–	–	(347)
Revaluation deficit	–	–	–	(9,277)	–	–	–	(9,277)
Realised upon the disposal of subsidiaries	–	–	–	–	–	(13,237)	13,237	–
Revaluation surplus of investment properties	–	–	–	–	13,320	–	–	13,320
Acquisition of subsidiaries	–	–	48,557	–	–	–	–	48,557
Loss for the year	–	–	–	–	–	–	(161,115)	(161,115)
At 31st December 2002								
As previously reported	317,774	47,654	48,557	–	13,320	–	(139,414)	287,891
Adoption of SSAP 12	–	–	(29,014)	–	(165)	–	(1,197)	(30,376)
As restated	317,774	47,654	19,543	–	13,155	–	(140,611)	257,515
Exercise of warrants	516	–	–	–	–	–	–	516
Revaluation surplus of investment properties	–	–	–	–	55,001	–	–	55,001
Profit for the year	–	–	–	–	–	–	144,274	144,274
At 31st December 2003	318,290	47,654	19,543	–	68,156	–	3,663	457,306
Retained by								
Company and subsidiaries	318,290	47,654	19,543	–	68,156	–	(162,373)	291,270
A jointly controlled entity	–	–	–	–	–	–	166,036	166,036
At 31st December 2003	318,290	47,654	19,543	–	68,156	–	3,663	457,306

20. RESERVES *(Continued)*

Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January 2002	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
Loss for the year	–	–	(149,340)	(149,340)
At 31st December 2002	317,774	152,029	(219,396)	250,407
Exercise of warrants	516	–	–	516
Profit for the year	–	–	7,588	7,588
At 31st December 2003	318,290	152,029	(211,808)	258,511

The contributed surplus of the Group arose as a result of the Group reorganisation carried out in 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.

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, 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 less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Accordingly, the Company had no reserves available for distribution at 31st December 2003 (2002: Nil).

The capital reserve of the Group represents the excess of the fair value of the net assets of the subsidiaries acquired in 2002 from a related company, which is wholly and beneficially owned by a director of the Company, over the nominal value of the promissory notes issued in exchange therefor.

At the board meeting held on 26th February 2004, the directors proposed that the entire amount standing to the credit of the share premium account of the Company as at the effective date be canceled (the "Share Premium Reduction"), and the directors be authorised to use part of the credit arising therefrom in the amount of HK$211,808,000 to set off against the accumulated losses of the Company as at 31st December 2003 in the same amount and to transfer the remaining balance of the credit arising from the Share Premium Reduction to the contributed surplus account of the Company. The effective date is taken to be the day immediately following the date on which this proposal is to be approved by the shareholders of the Company at the forthcoming annual general meeting to be held on 2nd April 2004.

21. PROMISSORY NOTES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Issued to:				
A related company	**30,000**	120,000	**–**	–
Ultimate holding company	**10,000**	10,000	**10,000**	10,000
	40,000	130,000	**10,000**	10,000

The promissory notes are unsecured, bear interest at 1.5% per annum and wholly repayable on 31st December 2005.

22. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the provinces in the PRC in which the Group operates. Deferred taxation principally relates to temporary differences on certain of the Group's investment properties and movements during the year are as follows:

	Assets/(liabilities)			
	Tax losses	Accelerated depreciation allowances	Revaluation	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 31st December 2002	–	–	–	–
Acquisition of subsidiaries/assets	2,733	(3,930)	(29,179)	(30,376)
At 31st December 2002 (as restated)	2,733	(3,930)	(29,179)	(30,376)
Transfer to profit and loss account *(Note 7)*	(123)	(765)	–	(888)
At 31st December 2003	2,610	(4,695)	(29,179)	(31,264)

The deferred taxation is to be settled after more than 12 months.

Deferred taxation assets of HK$11,337,000 (2002: HK$7,390,000) arising from unused tax losses of HK$64,783,000 (2002: HK$46,186,000) have not been recognised in the accounts. Unused tax losses have no expiry date.

23. COMMITMENT

(a) Operating lease commitments

Lessee

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2003 HK$'000	2002 HK$'000
Within one year	–	909

Lessor

The future minimum rental income receivable under non-cancellable leases are as follows:

	2003 HK$'000	2002 HK$'000
Within one year	6,794	5,937
Between two to five years	25,380	25,837
After five years	3,956	8,453
	36,130	40,227

Generally, the Group's operating leases are for terms of two to five years. There is no contingent rent included in rental income in 2002 and 2003.

(b) Capital expenditure commitments

At 31st December 2003, the Group had the following capital commitments in respect of fixed assets:

	2003 HK$'000	2002 HK$'000
Contracted but not provided for	9,259	26,479

24. CONTINGENT LIABILITIES

The Company has given guarantees in favour of bankers to the extent of HK$196,000,000 (2002: HK$196,000,000) in respect of banking facilities granted to subsidiaries of the Company. The banking facilities are also guaranteed by a director of the Company, the Company and a related company. At 31st December 2003, the banking facilities utilised by the subsidiaries amounted to approximately HK$171,616,000 (2002: HK$184,683,000).

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash used in operations

	2003 **HK$'000**	2002 HK$'000
Profit/(loss) before taxation	**174,903**	(160,195)
Interest income	**(562)**	(2,080)
Interest expense	**6,000**	12,216
Depreciation	**2,276**	1,486
Deficit on revaluation of leasehold land and buildings	**–**	12,349
Deficit on revaluation of investment properties	**–**	43
Provision for properties under development	**–**	107,309
Write-down of completed properties held for sales	**–**	15,210
Gain on disposal of fixed assets	**–**	317
Share of profit of a jointly controlled entity	**(192,610)**	(3,101)
Gain on disposal of subsidiaries	**–**	(2,887)
Operating loss before working capital change	**(9,993)**	(19,333)
Increase in properties under development/completed properties held for sale	**(21,842)**	(595)
Decrease/(increase) in prepayments, deposits and other receivables	**379**	(975)
(Increase)/decrease in trade receivables	**(1,155)**	855
Increase/(decrease) in trade payables	**2,075**	(382)
Increase in other payables and accruals	**3,184**	4,505
Net cash used in operations	**(27,352)**	(15,925)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of subsidiaries

	2003 HK$'000	As restated 2002 HK$'000
Net assets acquired		
Fixed assets	–	131
Investment properties	–	213,000
Prepayments, deposits and other receivables	–	137
Bank balances and cash	–	685
Amount due to related companies	–	(10,298)
Other payables and accruals	–	(2,334)
Deferred taxation	–	(29,014)
Long-term bank loans	–	(2,764)
	–	169,543
Capital reserve	–	(19,543)
	–	150,000
Satisfied by		
Promissory notes issued	–	150,000
Net cash inflow arising on acquisition		
Bank balances and cash acquired	–	685

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries

	2003 HK$'000	2002 HK$'000
Net assets disposed of		
Fixed assets	–	18,180
Investment properties	–	42
Properties under development	–	58,442
Completed properties held 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)
Long-term bank loans	–	(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

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Analysis of changes in financing during the year

	Share capital and share premium HK$'000	**Promissory notes** HK$'000	**Bank loans** HK$'000	**Amounts due to related companies** HK$'000	**Amount due to ultimate holding company** HK$'000	**Total** HK$'000
At 1st January 2002	78,805	–	263,146	–	79,569	421,520
Acquisition of subsidiaries	–	150,000	2,764	10,298	–	163,062
Disposal of subsidiaries	–	–	(89,557)	–	–	(89,557)
Net cash from/ (used in) financing	321,467	(20,000)	10,906	(871)	(75,368)	236,134
At 31st December 2002	400,272	130,000	187,259	9,427	4,201	731,159
Net cash from/ (used in) financing	782	(90,000)	(14,038)	42,075	60,443	(738)
At 31st December 2003	**401,054**	**40,000**	**173,221**	**51,502**	**64,644**	**730,421**

26. RELATED PARTY TRANSACTIONS

Related companies as referred to in notes 17 and 21 of the accounts are those companies which are controlled and/or beneficially owned by certain directors of the Company.

During the year, the Group entered into the following related party transactions, which were carried out in the normal course of the Group's business:

	Note	**2003 HK$'000**	2002 HK$'000
Interest on promissory note to ultimate holding company *(Note 21)*		**141**	54
Interest on promissory note to a related company *(Note 21)*		**768**	846
Interest income from a jointly controlled entity	(a)	**560**	1,861
Service fee income from a related company	(b)	**3,175**	1,212

Notes:

(a) Interest income was charged on loan provided to a jointly controlled entity. The loan was unsecured, interest bearing and was fully repaid in March 2003.

(b) The service fee income is charged at fixed amount to a related company as specified in the service contract.

27. ULTIMATE HOLDING COMPANY

The directors of the Company consider Perfect Zone International Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

28. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 26th February 2004.