

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 1. GENERAL

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange").

The principal activities of the Company are property investment and investment holding. The principal activities of the principal subsidiaries and associates are shown in notes 15 and 16 respectively.

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)") which is one of the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice and Interpretations approved by the HKSA. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the balance of accumulated profits of the Group as of 1st January, 2002 has been increased by approximately HK\$2.6 million, representing the cumulative effect of the change in policy on the results for periods prior to 1st January, 2002. The balances on the Group's other property revaluation reserve at 1st January, 2002 has been decreased by approximately HK\$51.4 million, representing the deferred tax liabilities recognised in respect of the revaluation surplus on the Group's properties at that date. Also, the balance of accumulated profits of the Company as of 1st January, 2002 has been decreased by approximately HK\$6.6 million. The effect of the change in accounting policy on the results of the Group and of the Company for the current year and for the year ended 31st December, 2002 is not significant.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, 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 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributable amount of goodwill previously eliminated against or credited to reserves or unamortised goodwill is included in the determination of the profit or loss on disposal.

#### NEGATIVE GOODWILL

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions after 1st January, 2001 is presented as deduction from assets. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

#### INVESTMENTS IN SUBSIDIARIES

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

#### INVESTMENTS IN ASSOCIATES

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

When a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### REVENUE RECOGNITION

- (i) *Property development*  
When properties are developed for sale, income is recognised only when the sale agreement is unconditional or when the relevant occupation permit is issued by the relevant authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as receipt in advance and is included in trade and other payables.
- (ii) *Premium income*  
Premium is recognised as income when an insurance policy is accepted and the relevant debit note is issued by the Group.
- (iii) *Return on investments*  
Dividends from investee companies are recognised as income when the Group's right to receive the relevant payment is established, whilst interest income is recognised on a time basis that takes into account the effective yield on the relevant deposits.
- (iv) *Operating lease income*  
Rental income under operating leases is credited to the income statement on a straight-line basis over the relevant lease term.
- (v) *Sales of goods*  
Sales of goods are recognised when goods are delivered and title has passed.
- (vi) *Management and agency fee*  
Management and agency fee income are recognised when services are rendered.
- (vii) *Sales of securities*  
Sales of investments in securities are recognised when the title to the investments are transferred and the buyer takes legal possession of the investments.

### 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 surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation deficit, in which case the excess of the revaluation deficit over the balance on 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.

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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than properties under development are stated at cost or valuation less depreciation 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 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.

Any revaluation surplus arising on the revaluation of land and buildings is credited to the other property revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the deficit previously charged. A deficit in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment, other than properties under development, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as follows:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the lease term or 3%
Plant and machinery	10%
Furniture, fixtures, motor vehicles and computer equipment	10 – 20%

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.

#### 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 losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation increase under that standard.

#### PROPERTIES UNDER DEVELOPMENT

Land for properties under development is stated at cost less accumulated impairment losses. Where a piece of land is transferred from another class, it is stated at its carrying value at the time of the transfer and the value is treated as the deemed cost of the land. No further valuation of the land will be carried out subsequent to its reclassification. Development expenditure is stated at the aggregate amount of costs, including interest expenses capitalised during the development period. Provision for anticipated losses is made, where appropriate. No depreciation is provided on properties under development.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### PROPERTIES HELD FOR SALE

Properties held for sale are stated at the lower of cost and the estimated market value.

#### INVESTMENTS IN SECURITIES

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the terms of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

#### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average cost method.

#### TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### OPERATING LEASES

Rental expense under operating leases is charged to the income statement on a straight-line basis over the relevant lease term.

#### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme (the “ORSO Scheme”) for qualifying staff of certain companies in the Group, the assets of which are held in a separate trustee administered fund. Payments to the scheme are charged as an expense as they fall due.

Certain of the Group’s employees have been enrolled in a Mandatory Provident Fund (“MPF”) scheme. The contributions payable in respect of the current year to the fund are charged as an expense as they fall due.

#### 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 exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group’s exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### 4. TURNOVER

Turnover represents the aggregate of the following amounts received and receivable during the year:

	2003 HK\$'000	2002 HK\$'000
Proceeds from disposal of properties	250,104	195,563
Gross rental income	112,151	128,302
Interest income	26,248	43,019
Sales of goods	25,722	37,359
Gross insurance premium	33,647	28,992
Proceeds from disposal of listed investments	18,138	22,141
Property management and agency fees	13,867	15,734
Dividends income from investments in securities	2,062	3,351
	<b>481,939</b>	<b>474,461</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### BUSINESS SEGMENTS

The Group is currently engaged in six business activities - property investment, property development, property management, treasury investment and banking, insurance business and trading and manufacturing. These activities are the basis on which the Group reports its primary segment information.

Segment information about these business is presented below:

	Year ended 31st December, 2003							Consolidated HK\$'000
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Eliminations HK\$'000	
<b>REVENUE</b>								
External sales	112,151	250,104	13,867	46,448	33,647	25,722	-	481,939
Inter-segment sales	864	-	4,635	353,717	671	-	(359,887)	-
Total revenue	113,015	250,104	18,502	400,165	34,318	25,722	(359,887)	481,939
Inter-segment sales are charged at prevailing market rates.								
<b>RESULT</b>								
Segment result	(19,795)	4,217	3,431	59,929	4,378	(1,797)	-	50,363
Finance costs								(59,245)
Share of results of associates	90	-	-	165,616	-	-	-	165,706
Profit before taxation								156,824
Taxation								(46,539)
Profit after taxation								110,285

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

## BALANCE SHEET

	As at 31st December, 2003						
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>							
Segment assets	2,643,242	2,168,544	3,902	1,145,502	14,264	36,887	6,012,341
Investments in associates	3,011	–	–	2,669,545	–	–	2,672,556
Unallocated corporate assets							21,395
Consolidated total assets							8,706,292
<b>LIABILITIES</b>							
Segment liabilities	45,576	519,402	5,714	1,272	21,416	2,124	595,504
Unallocated corporate liabilities							2,238,237
Provision for taxation							3,853
Deferred taxation							33,874
Consolidated total liabilities							2,871,468

## OTHER INFORMATION

	Year ended 31st December, 2003							
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	1,948	105,049	–	–	85	171	300	107,553
Depreciation	1,587	1,727	–	–	117	1,527	852	5,810
Impairment loss on investment securities	–	–	–	8,160	–	–	–	8,160
Loss on disposal of property, plant and equipment	–	–	–	–	1	60	104	165
Loss on disposal of investment properties	111,539	–	–	–	–	–	–	111,539



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

	Year ended 31st December, 2002							Consolidated HK\$'000 (As restated)
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Eliminations HK\$'000	
<b>REVENUE</b>								
External sales	128,302	195,563	15,734	68,511	28,992	37,359	-	474,461
Inter-segment sales	880	-	4,635	170,305	961	-	(176,781)	-
Total revenue	129,182	195,563	20,369	238,816	29,953	37,359	(176,781)	474,461
Inter-segment sales are charged at prevailing market rates.								
<b>RESULT</b>								
Segment result	93,395	(55,898)	4,910	(7,247)	6,084	253	-	41,497
Finance costs								(68,451)
Share of results of associates	94	-	-	165,950	-	-	-	166,044
Profit before taxation								139,090
Taxation								(46,329)
Profit after taxation								92,761

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

## BALANCE SHEET

	As at 31st December, 2002							Consolidated HK\$'000 (As restated)
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000 (As restated)	Insurance business HK\$'000	Trading and manufacturing HK\$'000		
<b>ASSETS</b>								
Segment assets	2,899,668	2,150,255	1,627	1,148,190	11,917	49,444		6,261,101
Investments in associates	2,924	–	–	2,603,604	–	–		2,606,528
Unallocated corporate assets								71,282
Consolidated total assets								8,938,911
<b>LIABILITIES</b>								
Segment liabilities	49,453	726,976	3,307	71	17,669	18,818		816,294
Unallocated corporate liabilities								2,461,736
Provision for taxation								6,052
Deferred taxation								14,555
Consolidated total liabilities								3,298,637

## OTHER INFORMATION

	Year ended 31st December, 2002							Consolidated HK\$'000
	Property investment HK\$'000	Property development HK\$'000	Property management HK\$'000	Treasury investment and banking HK\$'000	Insurance business HK\$'000	Trading and manufacturing HK\$'000	Others HK\$'000	
Capital additions	131,378	131,360	–	–	49	255	427	263,469
Depreciation	1,254	119	–	–	122	1,087	1,285	3,867
Loss on disposal of investment properties	10,104	–	–	–	–	–	–	10,104
Unrealised holding loss on other investments	–	–	–	9,805	–	–	–	9,805

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

#### GEOGRAPHICAL SEGMENTS

The Group's operations are located in Hong Kong and other parts of the People's Republic of China (the "PRC"). Certain of the Group's property development and trading and manufacturing business are located in the PRC. Others are located in Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to profit before taxation	
	Year ended 31.12.2003 HK\$'000	Year ended 31.12.2002 HK\$'000	Year ended 31.12.2003 HK\$'000	Year ended 31.12.2002 HK\$'000
Hong Kong	199,561	449,974	(18,479)	(25,318)
PRC	282,378	24,487	9,597	(1,636)
	481,939	474,461	(8,882)	(26,954)
Share of results of associates			165,706	166,044
Profit before taxation			156,824	139,090

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

	Carrying amount of segment assets		Additions to property, plant and equipment and properties under development	
	As at 31.12.2003 HK\$'000	As at 31.12.2002 HK\$'000	As at 31.12.2003 HK\$'000	As at 31.12.2002 HK\$'000
Hong Kong	3,834,122	4,151,392	2,334	131,854
PRC	2,196,560	2,179,072	105,219	131,615
Others	3,054	1,919	–	–
	6,033,736	6,332,383	107,553	263,469

## 6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments (Note 8)	13,008	13,052
Other staff costs	17,119	18,719
Staff retirement scheme contributions, net of nil (2002: Nil) forfeited contributions	1,163	1,716
Total staff costs	31,290	33,487
Auditors' remuneration	1,149	1,068
Depreciation	5,810	3,867
Impairment loss on investment securities (included in administrative and other operating costs)	8,160	–
Loss on disposal of property, plant and equipment	165	–
Operating lease rentals in respect of land and buildings	1,516	2,357
and after crediting:		
Net rental income from properties	103,650	117,253
Realised gain on disposal of other investments	8,392	4,762
Surplus on revaluation of land and buildings	85	84

## 7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank loans and overdrafts	95,522	135,998
Other borrowings	1,397	2,242
	96,919	138,240
Less: Amount capitalised as cost of properties under development at a capitalisation rate of 2.86% (2002: 2.26%) per annum	(37,674)	(69,789)
	59,245	68,451

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Directors' emoluments:		
Fees	800	760
Other emoluments:		
Salary and other benefits	11,607	11,717
Retirement scheme contributions	601	575
	<b>13,008</b>	13,052

The amounts disclosed above include directors' fee of HK\$400,000 (2002: HK\$400,000) payable to independent non-executive directors.

*Notes:*

- (a) Emoluments of directors were within the following bands:

Range	No. of directors	
	2003	2002
Not exceeding HK\$1,000,000	10	10
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$6,000,000	1	1

- (b) The five highest paid employees are all executive directors of the Company. Their emoluments have been disclosed and included in the above.
- (c) During the year, no emoluments were paid by the Group to the five highest paid directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.

## 9. TAXATION

	2003 HK\$'000	2002 HK\$'000 (As restated)
The charge comprises:		
Hong Kong Profits Tax		
Current year	16,490	15,047
Underprovision in prior years	54	236
	<b>16,544</b>	15,283
Deferred taxation (note 26)		
Current year	3,212	3,614
Attributable to increase in tax rate	1,364	–
	<b>4,576</b>	3,614
Taxation attributable to the Company and its subsidiaries	<b>21,120</b>	18,897
Share of taxation attributable to associates	<b>25,419</b>	27,432
	<b>46,539</b>	46,329

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 9. TAXATION (CONTINUED)

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<b>156,824</b>		139,090	
Hong Kong Profits Tax at the rate of 17.5% (2002: 16%)	<b>27,444</b>	<b>17.5</b>	22,254	16.0
Tax effect of share of results of associates	<b>(3,579)</b>	<b>(2.2)</b>	865	0.6
Tax effect of expenses not deductible for tax purpose	<b>19,875</b>	<b>12.7</b>	7,319	5.3
Tax effect of income not taxable for tax purpose	<b>(13,398)</b>	<b>(8.5)</b>	(1,307)	(0.9)
Underprovision in respect of prior years	<b>54</b>	–	236	0.2
Tax effect of tax losses not recognised	<b>14,779</b>	<b>9.4</b>	16,962	12.1
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	<b>1,364</b>	<b>0.8</b>	–	–
Tax charge and effective tax rate for the year	<b>46,539</b>	<b>29.7</b>	46,329	33.3

## 10. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim cash dividend paid at HK\$0.06 (2002: HK\$0.10) per share	22,715	37,894
Proposed cash final dividend at HK\$0.10 (2002: HK\$0.06) per share	37,858	22,715
	<b>60,573</b>	60,609

The final dividend of HK\$0.10 (2002: HK\$0.06) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

## 11. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$103,780,000 (2002: HK\$77,613,000 as restated) and on the weighted average number of 378,583,440 (2002: 378,860,591) shares in issue during the year.

## 12. INVESTMENT PROPERTIES

	THE GROUP HK\$'000	THE COMPANY HK\$'000
VALUATION		
At 1st January, 2003	2,873,849	680,000
Transferred from properties under development	609,284	–
Disposals	(264,000)	–
Surplus on revaluation	39,017	–
At 31st December, 2003	3,258,150	680,000

The investment properties were revalued as at 31st December, 2003 on an open market value basis by Vigers Hong Kong Ltd., an independent firm of professional valuers. The resulting surplus of the Group of approximately HK\$26,141,000 arising on revaluation have been credited to the investment property revaluation reserve (2002: deficit of approximately HK\$84,575,000 had been charged to the investment property revaluation reserve).

There is no surplus nor deficit arising on revaluation of the Company's investment properties for the year ended 31st December, 2003.

All investment properties are held for rental income or intended to be held for rental income under operating leases.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 1 2. INVESTMENT PROPERTIES (CONTINUED)

A summary of the carrying values of investment properties is as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Held under:				
Long leases in Hong Kong	2,592,849	2,606,849	680,000	680,000
Long-term land use right in the PRC	648,301	–	–	–
Medium-term leases	17,000	267,000	–	–
	<b>3,258,150</b>	2,873,849	<b>680,000</b>	680,000

### 1 3. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, motor vehicles and computer equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>				
<b>COST/VALUATION</b>				
At 1st January, 2003	3,874	27,327	31,395	62,596
Translated from properties under development	75,296	–	–	75,296
Additions	–	171	6,527	6,698
Disposals	–	(189)	(4,494)	(4,683)
Surplus on revaluation	4,798	–	–	4,798
<b>At 31st December, 2003</b>	<b>83,968</b>	<b>27,309</b>	<b>33,428</b>	<b>144,705</b>
<b>COMPRISING:</b>				
At cost	–	27,309	33,428	60,737
At valuation – 2003	83,968	–	–	83,968
	83,968	27,309	33,428	144,705
<b>ACCUMULATED DEPRECIATION</b>				
At 1st January, 2003	–	9,840	23,885	33,725
Charged for the year	953	1,527	3,330	5,810
Eliminated on disposals	–	(130)	(4,388)	(4,518)
Surplus on revaluation	(953)	–	–	(953)
<b>At 31st December, 2003</b>	<b>–</b>	<b>11,237</b>	<b>22,827</b>	<b>34,064</b>
<b>NET BOOK VALUES</b>				
<b>At 31st December, 2003</b>	<b>83,968</b>	<b>16,072</b>	<b>10,601</b>	<b>110,641</b>
At 31st December, 2002	3,874	17,487	7,510	28,871

## 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

A summary of the net book values of land and buildings held by the Group, which are all situated in the PRC, is as follows:

	2003 HK\$'000		2002 HK\$'000
Held under:			
Long leases	80,458		364
Medium-term leases	3,510		3,510
	<b>83,968</b>		3,874
	Land and building held in the PRC under a long lease HK\$'000	Furniture, fixtures, motor vehicles and computer equipment HK\$'000	Total HK\$'000
<b>THE COMPANY</b>			
<b>COST/VALUATION</b>			
At 1st January, 2003	364	14,617	14,981
Additions	–	301	301
Disposals	–	(4,430)	(4,430)
<b>At 31st December, 2003</b>	<b>364</b>	<b>10,488</b>	<b>10,852</b>
<b>COMPRISING:</b>			
At cost	–	10,488	10,488
At valuation – 2003	364	–	364
	364	10,488	10,852
<b>ACCUMULATED DEPRECIATION</b>			
At 1st January, 2003	–	12,351	12,351
Charged for the year	8	845	853
Eliminated on disposals	–	(4,326)	(4,326)
Surplus on revaluation	(8)	–	(8)
<b>At 31st December, 2003</b>	<b>–</b>	<b>8,870</b>	<b>8,870</b>
<b>NET BOOK VALUES</b>			
<b>At 31st December, 2003</b>	<b>364</b>	<b>1,618</b>	<b>1,982</b>
At 31st December, 2002	364	2,266	2,630

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The land and buildings were revalued as at 31st December, 2003 on an open market value basis by Vigers Hong Kong Ltd., an independent firm of professional valuers. The resulting surplus arising on revaluation of the Group amounting to approximately HK\$5,751,000 has been dealt with as follows:

- (i) a surplus shared by the Group of approximately HK\$3,799,000 has been credited to the other property revaluation reserve; and
- (ii) a surplus of approximately HK\$85,000 has been credited to the income statement.

The resulting surplus arising on revaluation of the Company amounting to HK\$8,000 has been credited to other property revaluation reserve.

The amount of land and buildings of the Group and of the Company that would have been included in the financial statements at the balance sheet date had the assets been carried at cost less accumulated depreciation is approximately HK\$78,982,000 and HK\$181,000 (2002: HK\$4,661,000 and HK\$185,000), respectively.

### 14. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Land situated in the PRC and held under medium-term leases, at cost less impairment loss	345,990	587,070
Development expenditure to date	411,085	1,418,688
	<b>757,075</b>	2,005,758

Included in properties under development is net interest capitalised of approximately HK\$226,485,000 (2002: HK\$476,547,000).

## 15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares/capital contribution, at cost	286,408	286,409
Less: Impairment loss recognised	(34,372)	(34,372)
	252,036	252,037
Amounts due from subsidiaries, less allowance for doubtful debt (note)	2,590,229	2,658,233
	2,842,265	2,910,270

Note: Included in the balance at 31st December 2002 was an amount of HK\$570,668,000 due from a subsidiary, the repayment of which had been subordinated to a bank. The subordination was released during the current year.

The amounts are unsecured and have no fixed repayment terms. Of the amounts, HK\$55,820,044 (2002: HK\$95,663,399) bears interest at market rate and the remaining balance is interest free. In the opinion of the Company's directors, the amounts due from subsidiaries will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

Particulars of the Company's principal subsidiaries as at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued ordinary share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
Liu Chong Hing Estate Company, Limited	Hong Kong	HK\$10,000,000	100	–	Investment holding
Liu Chong Hing Godown Company, Limited	Hong Kong	HK\$72,000,000	100	–	Property investment
Liu Chong Hing Insurance Company Limited	Hong Kong	HK\$50,000,000	100	–	Insurance business
Liu Chong Hing Property Management and Agency Limited	Hong Kong	HK\$1,000,000	100	–	Property management and agency
Abaleen Enterprises Limited	Hong Kong	HK\$100,000	100	–	Property investment
Alain Limited	Hong Kong	HK\$9,500	52.6	21.4	Investment holding
Bonsun Enterprises Limited	Hong Kong	HK\$2,000,000	100	–	Property investment
Chong Yip Finance Limited	Hong Kong	HK\$1,000,000	100	–	Money lending
Devon Realty Limited	Hong Kong	HK\$200	100	–	Property investment

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operations	Issued ordinary share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
Donington Company Limited	Hong Kong	HK\$200	100	–	Property investment
Gem Gain Enterprises Limited	Hong Kong	HK\$30	100	–	Investment holding
Great Earnest Limited	Hong Kong	HK\$200	100	–	Property investment
Heng Kin Investment Limited	Hong Kong	HK\$2	100	–	Property investment
Jacot Limited	Hong Kong	HK\$2	100	–	Investment holding
Ko Yew Company Limited	Hong Kong	HK\$200	100	–	Property investment
Luxpolar Limited	Hong Kong	HK\$2	–	100	Property investment
Marble Kingdom Limited	Hong Kong	HK\$2	100	–	Investment holding
Queen Profit International Investment Limited	Hong Kong	HK\$61,540	83.75	–	Investment holding
Sino Pink Development Limited	Hong Kong	HK\$2	100	–	Property investment
Speed World Investment Limited	Hong Kong	HK\$100	–	60	Investment holding
Top Team Limited	Hong Kong	HK\$200	100	–	Investment holding
Wealth Good Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
Yue Tung Ching Kee Company Limited	Hong Kong	HK\$2,000,000	100	–	Property investment
Guangzhou Chong Hing Property Development Company Limited (“Guangzhou Chong Hing”)	PRC	RMB170,000,000	–	60	Property development
Maanshan Gaoke Magnetic Material Company Limited (“Maanshan Gaoke”)	PRC	RMB41,000,000	–	51.5	Manufacturing of magnetic materials
Shanghai Huang Pu Liu Chong Hing Property Development Company Limited (“Shanghai Huang Pu”)	PRC	US\$27,000,000	–	70.3	Property development

## 15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operations	Issued ordinary share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
China Link Technologies Limited	British Virgin Islands/ Hong Kong	US\$100	100	–	Investment holding
Determined Resources Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	–	Share investment
Terryglass Limited	British Virgin Islands/ Thailand	US\$1,000	100	–	Investment holding

Guangzhou Chong Hing is a sino-foreign cooperative enterprise while Maanshan Gaoke and Shanghai Huang Pu are sino-foreign equity joint ventures established in the PRC.

None of the subsidiaries had any debt security subsisting at 31st December, 2003 or at any time during the year.

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

## 16. INVESTMENTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000 (As restated)	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	–	–	3	3
Share of net assets of associates which are				
– listed in Hong Kong	2,669,545	2,603,604	–	–
– unlisted	3,011	2,924	–	–
	<b>2,672,556</b>	2,606,528	<b>3</b>	3
Market value of listed shares at 31st December	<b>2,354,804</b>	1,373,635	–	–

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the Group's principal associates as at 31st December, 2003 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operations	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activity
				Directly %	Indirectly %	
Liu Chong Hing Bank Limited (listed in Hong Kong) ("LCH Bank")	Incorporated	Hong Kong	Ordinary	–	45.1	Banking business
Falconmate Limited	Incorporated	Hong Kong	Ordinary	50.0	–	Property investment
Pelham Hill Limited	Incorporated	Hong Kong	Ordinary	25.0	–	Investment holding

The Company's directors are of the opinion that a complete list of the particulars of all associates will be of excessive length and therefore the above list contains only the particulars of associates which principally affect the results or net assets of the Group.

## 16. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following details have been extracted from the audited financial statements of the Group's principal associate, LCH Bank, and its subsidiaries (hereinafter collectively referred to as the "LCH Bank Group").

Consolidated results of LCH Bank Group for the year ended 31st December, 2003 are as follows:

	2003 HK\$'000	2002 HK\$'000 (As restated)
Interest income	1,034,173	1,248,660
Interest expenses	(363,995)	(499,289)
Net interest income	670,178	749,371
Other operating income	213,840	200,846
Operating income	884,018	950,217
Operating expenses	(463,154)	(439,261)
Operating profit before provisions and disposal of long-term assets	420,864	510,956
Charge for bad and doubtful debts	(62,803)	(129,027)
Net losses from disposal of property and equipment	(2,664)	(231)
Gains less losses from disposal of other securities	22,192	-
Provision for diminution in value of other investments	(7,809)	-
Profit from operations	369,780	381,698
Share of results of jointly controlled entities	(2,000)	(9,510)
Profit from ordinary activities before taxation	367,780	372,188
Taxation	(56,305)	(60,777)
Net profit for the year	311,475	311,411

LCH Bank Group has selected the alternative treatment for securities other than held-to-maturity securities upon adoption of SSAP 24 "Accounting for investments in securities", under which the valuation movements of non-trading securities are dealt with in equity while those of trading securities are dealt with in the income statement. This accounting policy is not consistent with the benchmark treatment adopted by the Group. No adjustment has been made to achieve a consistent policy upon the equity accounting of the results of LCH Bank Group as it is not practicable to quantify the adjustment required.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Consolidated financial position of LCH Bank Group as at 31st December, 2003:

	2003 HK\$'000	2002 HK\$'000 (As restated)
<b>Assets</b>		
Cash and short-term funds	12,001,888	12,388,484
Placements with banks and other financial institutions maturing between one and twelve months	1,243,771	2,223,465
Trading securities	220,969	185,994
Advances and other accounts	20,081,543	19,589,201
Held-to-maturity securities	3,104,561	1,557,144
Certificates of deposit held	1,292,407	1,337,768
Other securities	319,947	256,312
Interest in an associate	396,448	362,777
Interests in jointly controlled entities	66,238	69,033
Investment properties	47,868	47,868
Property and equipment	1,165,276	1,170,950
<b>Total assets</b>	<b>39,940,916</b>	<b>39,188,996</b>
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	1,035,392	420,845
Deposits from customers	32,591,590	32,492,252
Other accounts and provisions	271,327	390,182
Deferred taxation	85,085	79,629
Taxation	13,114	7,694
<b>Total liabilities</b>	<b>33,996,508</b>	<b>33,390,602</b>
<b>Net assets</b>	<b>5,944,408</b>	<b>5,798,394</b>

## 17. INVESTMENTS IN SECURITIES

	Held-to-maturity securities		Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>THE GROUP</b>								
Equity securities:								
Listed in Hong Kong	-	-	-	-	68,817	48,705	68,817	48,705
Listed overseas	-	-	-	-	3,054	1,919	3,054	1,919
Unlisted	-	-	80,749	88,909	230,810	190,631	311,559	279,540
	-	-	80,749	88,909	302,681	241,255	383,430	330,164
Unlisted debt securities	50,700	-	-	-	-	-	50,700	-
Total:								
Listed in Hong Kong	-	-	-	-	68,817	48,705	68,817	48,705
Listed overseas	-	-	-	-	3,054	1,919	3,054	1,919
Unlisted	50,700	-	80,749	88,909	230,810	190,631	362,259	279,540
	50,700	-	80,749	88,909	302,681	241,255	434,130	330,164
Market value of listed securities:								
Listed in Hong Kong	-	-	-	-	68,817	48,705	68,817	48,705
Listed overseas	-	-	-	-	3,054	1,919	3,054	1,919
	-	-	-	-	71,871	50,624	71,871	50,624
Carrying amount analysed for reporting purposes as:								
Current	-	-	-	-	3,438	1,746	3,438	1,746
Non-current	50,700	-	80,749	88,909	299,243	239,509	430,692	328,418
	50,700	-	80,749	88,909	302,681	241,255	434,130	330,164
<b>THE COMPANY</b>								
Equity securities:								
Listed in Hong Kong	-	-	-	-	3,438	1,746	3,438	1,746
Listed overseas	-	-	-	-	622	391	622	391
Unlisted	-	-	1,725	1,725	74,702	25,790	76,427	27,515
	-	-	1,725	1,725	78,762	27,927	80,487	29,652
Unlisted debt securities	50,700	-	-	-	-	-	50,700	-
Total:								
Listed in Hong Kong	-	-	-	-	3,438	1,746	3,438	1,746
Listed in overseas	-	-	-	-	622	391	622	391
Unlisted	50,700	-	1,725	1,725	74,702	25,790	127,127	27,515
	50,700	-	1,725	1,725	78,762	27,927	131,187	29,652
Market value of listed securities:								
Listed in Hong Kong	-	-	-	-	3,438	1,746	3,438	1,746
Listed overseas	-	-	-	-	622	391	622	391
	-	-	-	-	4,060	2,137	4,060	2,137
Carrying amount analysed for reporting purposes as:								
Current	-	-	-	-	3,438	1,746	3,438	1,746
Non-current	50,700	-	1,725	1,725	75,324	26,181	127,749	27,906
	50,700	-	1,725	1,725	78,762	27,927	131,187	29,652

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 18. ADVANCES TO INVESTEE COMPANIES

The advances are unsecured and have no fixed repayment terms. Of the advances, HK\$159,121,000 (2002: HK\$323,340,000) bears interest at market interest rate and the remaining balance is interest free. In the opinion of the Company's directors, the investee companies will not fully repay the advances in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

### 19. LOANS RECEIVABLE

	2003 HK\$'000	2002 HK\$'000
Loans receivable	30,167	29,467
Less: Amount due within one year included in trade and other receivables	(3,959)	(8,624)
	<b>26,208</b>	20,843

The Group offers loans to third parties and buyers of properties sold by the Group and the repayment of the loans is specified in the respective loan agreements.

### 20. INVENTORIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Raw materials	1,164	1,405	–	–
Work in progress	1,411	1,179	–	–
Finished goods	3,093	6,384	–	691
	<b>5,668</b>	8,968	–	691

The cost of inventories recognised as an expense during the year amounted to approximately HK\$24,204,000 (2002: HK\$34,639,000).

## 21. TRADE AND OTHER RECEIVABLES

The Group operates a controlled credit policy and allows an average credit period of 30 – 90 days to its trade customers who satisfy the credit evaluation. The aged analysis of trade receivables of HK\$56,962,000 (2002: HK\$55,206,000) which are included in trade and other receivables is as follows:

	<b>2003</b> HK\$'000	2002 HK\$'000
Current	<b>44,139</b>	42,255
Over 30 days	<b>4,460</b>	6,101
Over 90 days	<b>8,363</b>	6,850
	<b>56,962</b>	55,206

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 22. BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans				
Secured	320,000	462,384	320,000	320,000
Unsecured	1,821,250	1,865,000	1,821,250	1,865,000
Secured loan from LCH Bank Group	98,000	250,000	98,000	250,000
Secured bank overdrafts granted by LCH Bank Group	–	867	–	867
Total bank borrowings	2,239,250	2,578,251	2,239,250	2,435,867
Amounts due to associates (note (i))	476,324	428,669	2,343	2,149
Amounts due to minority shareholders (note (ii))	8,487	11,112	–	–
	2,724,061	3,018,032	2,241,593	2,438,016
The maturity of borrowings is as follows:				
Bank borrowings				
On demand or within one year	772,500	1,144,617	772,500	1,144,617
More than one year but not exceeding two years	1,102,750	1,114,884	1,102,750	1,172,500
More than two years but not exceeding five years	364,000	318,750	364,000	118,750
Total bank borrowings	2,239,250	2,578,251	2,239,250	2,435,867
Less: Amount due within one year shown under current liabilities	(772,500)	(1,144,617)	(772,500)	(1,144,617)
	1,466,750	1,433,634	1,466,750	1,291,250
Amounts due to associates (note (i))	476,324	428,669	2,343	2,149
Amounts due to minority shareholders (note (ii))	8,487	11,112	–	–
Amounts due after one year	1,951,561	1,873,415	1,469,093	1,293,399

*Notes:*

- (i) These borrowings are unsecured, bear interest at market interest rates and have no fixed repayment terms. In the opinion of the Company's directors, the respective creditors will not demand repayment in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities.
- (ii) These borrowings are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the Company's directors, the respective creditors will not demand repayment in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities.

### 23. TRADE AND OTHER PAYABLES

At balance sheet date, included in trade and other payables are trade payables of HK\$49,167,000 (2002: HK\$44,139,000) and the aged analysis is as follows:

	2003 HK\$'000	2002 HK\$'000
Current	34,755	33,460
Over 30 days	2,741	8,367
Over 90 days	11,671	2,312
	<b>49,167</b>	<b>44,139</b>

### 24. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$1 each		
Authorised:		
At 1st January and 31st December	600,000	600,000
Issued and fully paid:		
At 1st January	378,583	378,943
Shares repurchased and cancelled	–	(360)
At 31st December	<b>378,583</b>	<b>378,583</b>

During the year ended 31st December, 2002, the Company repurchased a total 360,000 shares of HK\$1 each in the Company through the Hong Kong Stock Exchange. All such shares were cancelled and the total consideration was charged to accumulated profits as follows:

Trading month/year	Number of shares repurchased	Price per share HK\$	Aggregate consideration paid HK\$'000
October 2002	360,000	3.60	1,301

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during both years.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 25. RESERVES

	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Dividend reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>							
At 1st January, 2002							
– as originally stated	3	296,387	177	2,592	37,894	1,063,266	1,400,319
– prior period adjustments	–	–	–	–	–	(6,564)	(6,564)
– as restated	3	296,387	177	2,592	37,894	1,056,702	1,393,755
Reclassification	(3)	–	–	3	–	–	–
Net loss for the year	–	–	–	–	–	(374,015)	(374,015)
Dividend declared	–	–	–	–	60,609	(60,609)	–
Dividend paid	–	–	–	–	(75,788)	–	(75,788)
Surplus on revaluation	–	–	7	–	–	–	7
Cancellation on repurchase of own shares	–	–	–	360	–	(1,301)	(941)
At 31st December, 2002	–	296,387	184	2,955	22,715	620,777	943,018
Net profit for the year	–	–	–	–	–	277,503	277,503
Dividend declared	–	–	–	–	60,573	(60,573)	–
Dividend paid	–	–	–	–	(45,430)	–	(45,430)
Surplus on revaluation	–	–	8	–	–	–	8
At 31st December, 2003	–	296,387	192	2,955	37,858	837,707	1,175,099

The Company's reserves available for distribution to shareholders at 31st December, 2003 amounted to HK\$875,565,000 (2002: HK\$643,492,000), being its accumulated profits and dividend reserve at that date.

## 26. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and the Company and movements thereon during the current and prior reporting periods.

	THE GROUP			THE COMPANY
	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000	Accelerated tax depreciation HK\$'000
At 1st January, 2002				
– as previously reported	–	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	10,941	–	10,941	6,564
– as restated	10,941	–	10,941	6,564
Charge to income for the year	3,614	–	3,614	1,969
At 31st December, 2002	14,555	–	14,555	8,533
Charge to income for the year	3,212	–	3,212	2,146
Charge to equity for the year	–	14,743	14,743	–
Effect of change in tax rate charged to income statement	1,364	–	1,364	799
At 31st December, 2003	19,131	14,743	33,874	11,478

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Deferred tax liabilities	(36,821)	(17,101)
Deferred assets	2,947	2,546
	(33,874)	(14,555)



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 26. DEFERRED TAXATION (CONTINUED)

At the balance sheet date, the Group has unused tax losses of HK\$271 million (2002: HK\$187 million) available for offset against future profits. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams.

### 27. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 25th April, 2002, which replace the previous share option scheme, for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24th April, 2012. Under the Scheme, the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company at HK\$10 per option. Additionally, the Company may, from time to time, grant share options to outside eligible third parties at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the 5th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's share on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant, or the closing price of the shares on the date of grant.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

### 28. PLEDGE OF ASSETS

#### THE GROUP

At the balance sheet date, certain investment properties of the Group with an aggregate carrying amount of HK\$1,087,000,000 (2002: HK\$1,337,000,000) were pledged to banks to secure general banking facilities made available to the Group.

At 31st December, 2002, the Group had also executed a share mortgage of its investment in an investee company with a carrying amount of HK\$138,102,000 in favour of banks against facilities granted to that investee company.

#### THE COMPANY

At the balance sheet date, the investment properties of the Company with an aggregate carrying amount of HK\$680,000,000 (2002: HK\$680,000,000) were pledged to banks to secure general banking facilities made available to the Company. In addition, the Company also pledged the shares of a subsidiary in favour of a bank against facilities granted to that subsidiary.

## 29. CONTINGENT LIABILITIES

At 31st December, 2002 the Company had given corporate guarantees to banks for banking facilities amounting to HK\$300,000,000 granted to a subsidiary. The guarantees were released during the current year.

At the balance sheet date, the Group had no material contingent liabilities.

## 30. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Capital expenditure in respect of property development expenditure contracted for but not provided in the financial statements	592,605	54,900	–	–
Capital expenditure in respect of the contributions to the capital of an investee company contracted for but not provided in the financial statements	47,982	77,000	47,982	77,000
	640,587	131,900	47,982	77,000

## 31. OPERATING LEASE COMMITMENTS

### THE GROUP AS LESSEE

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

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	80	1,950	80	852
In the second to fifth year inclusive	–	1,179	–	630
	80	3,129	80	1,482

Operating lease payments represent rentals for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed throughout the leases period.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

### 31. OPERATING LEASE COMMITMENTS (CONTINUED)

#### THE GROUP AS LESSOR

Property rental income earned by the Group during the year amounted to approximately HK\$112 million (2002: HK\$128 million). Most of the properties held have committed tenants for the next one to five years except that one of the leases was signed for a term of sixty years which was included at 31st December, 2002, the monthly rent of which was to be reviewed every five years. The future minimum lease payments for the remaining period of the lease term from this tenant was calculated based on the existing monthly rental payment.

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

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	<b>81,051</b>	73,711	<b>15,774</b>	12,469
In the second to fifth year inclusive	<b>81,920</b>	50,784	<b>14,119</b>	8,786
After five years	–	61,490	–	–
	<b>162,971</b>	185,985	<b>29,893</b>	21,255

### 32. RETIREMENT BENEFITS SCHEME

The Group operates an ORSO Scheme for the qualifying employees of certain companies in the Group and in December 2000, enrolled all other eligible employees into the Mandatory Provident Fund ("MPF") Scheme. The ORSO Scheme is registered under the Occupational Retirement Scheme Ordinance. The assets of both schemes are held separately from those of the Group, in funds under the control of trustees.

The contributions payable to the fund by the Group are charged to income statement at rates specified in the rules of the ORSO Scheme. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. At the balance sheet date, there was no forfeited contributions (2002: Nil) arising upon employees leaving the ORSO Scheme which are available to reduce the contributions payable in the future years.

The retirement benefit cost for the MPF charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

### 33. RELATED PARTY DISCLOSURES

During the year, the Group entered into the following significant transactions with related parties:

	2003 HK\$'000	2002 HK\$'000
Income receivable from an associate		
Rental income	8,225	7,759
Management and other service fee income	4,153	3,415
Interest income	1,052	1,298
Insurance income	–	3,470
	<b>13,430</b>	15,942
Expenses payable to an associate		
Interest expenses	16,913	8,270
Rental expenses	2,224	1,870
	<b>19,137</b>	10,140

The prices of the above transactions were determined by the directors with reference to market prices or prices for similar transactions with unrelated third parties.

In addition, at 31st December, 2003, the Group and the Company had outstanding balances with related parties, details of which are set out in the balance sheets, notes 15, 16, 18 and 22 respectively.

Furthermore, at 31st December, 2003, certain investment properties of the Group with an aggregate net book value of HK\$407 million (2002: HK\$407 million) have been pledged to the LCH Bank Group to secure banking facilities granted to the Group.